

## **SOUTH AFRICA AFTER APARTHEID: PROSPECTS FOR ECONOMIC RECOVERY**

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We know the blunt facts. Real GDP per capita has fallen to early 1970s levels, whites enjoy incomes many times those of Africans, only one in eight work seekers finds a formal sector job, malnutrition and measles prey on children from poor rural families. The apartheid economy is in a mess. Can it be restructured during the next decade or so, to achieve sustained recovery while facilitating the democratization of society?

Any attempt to speculate about growth patterns for a decade ahead in a country as complex and conflict-ridden as South Africa must be something of a megalomaniacal exercise. Perhaps it is futile, too. Economic growth is a complex, erratic and disputed process, determined by a range of economic, social and ideological factors in society, and theories and models simply cannot incorporate all the important variables and relations between them. This is a field in which even the best-rounded predictions by apparent experts can, and do, go badly wrong. Even though I will not indulge in forecasts here, firmly pragmatic and hard-headed readers should sign off at this point.

Instead, I carry out a conceptual exercise below, describing various economic scenarios proposed for South Africa and evaluating their likely economic success or failure, in both growth and distributional terms. Games of this kind can be great fun and their very fuzziness provides scope for anybody to take part. I try to provide some backing for my guesses, though, particularly by drawing analogies with the experiences of other countries during periods of social conflict.

### **Growth Under Apartheid: the long-term background**<sup>[2]</sup>

Compared to other developing countries, the South African economy was remarkably well placed for rapid economic development after 1945. It enjoyed many economic and social advantages which in other countries have been associated with steady growth: a stable political system (for a developing country), abundant natural resources and lots of foreign exchange earnings, a fairly sophisticated skills and technological base, an established position in the world trading and financial system, and a reasonably competent state administration. Yet the apartheid economy grew curiously and consistently slowly.

Table 1 compares the post-war economic growth performance of South Africa with that in nineteen other middle-income developing countries which were roughly comparable in terms of population and levels of real GDP per capita in 1960. South Africa's comparative performance was poor in the 1950s, indifferent in the 1960s and 1970s, and - rather ironically - respectable in the 1980s. While the details of this exercise can easily be challenged, South Africa's ranking is little affected if alternative country-selection criteria are used.

Given South Africa's cluster of economic advantages, if sensible economic policies had been followed, she could be expected to appear consistently towards the top of the growth ranking. In this comparative light, then, the long-term growth record looks rather poor, as is the case for other indicators of economic performance like export and productivity growth, and the acquisition and application of advanced foreign technology. Meanwhile, growth was certainly not impeded by attention to redistributive or equality goals, since South Africa's social record over the period was singularly appalling - as evinced by black political and social oppression, rising unemployment rates, high inequality and desperate poverty. In fact,

as Wilson and Ramphela show, the apartheid state seems to have made a special effort to create and perpetuate poverty over most of its history (1989, ch 11). In reply to the question I have posed elsewhere (1991a), then, it seems the apartheid economy did in fact fail.

**Table 1. Nothing worth writing home about.  
Comparative South African growth, 1950-88**

	<i>Real GDP growth (per cent per annum):</i>				
	1950s	1960s	1970s	1980-88	1950-88
20 developing countries	4.6	5.3	4.4	1.5	4.5
South Africa	3.8	5.3	4.5	2.1	4.1
South Africa's ranking	15	11	11	6	11

*Note:* The volume of gold-bearing ore milled is taken as the real output for the South African gold mining sector, and national accounting base years are selected in terms of long-term price trends (see T Moll, 1992b). All growth rates are exponential.

*Sources:* As in T Moll (1991a: 276-280; 1992b), and World Bank (1991).

Why did the apartheid economy grow so slowly? To begin with, when the world economy - of which the developed countries form the largest chunk - is growing rapidly, developing countries like South Africa have scope to flourish, usually enjoying rapid growth in world trade and export demand, healthy commodity prices and a comfortable supply of foreign capital and investment. When the world economy slows down, these conditions all deteriorate, and growth slows in most peripheral economies. The middle-income developing countries in the above table follow the pattern of growth in the developed world, growing fastest in the 1950s and 1960s, and slowing down in the 1970s, before the slump of the 1980s due to factors like the debt crisis and other external shocks (Maddison, 1989, ch 3). South Africa follows this pattern closely.

Within this international context, South Africa's long-term comparative growth record is fairly consistent, suggesting that the same sets of factors may have determined the apartheid economy's mediocre growth record over the whole of the post-war period. What might these factors be? To begin with, it appears that the capital stock and supply of foreign technology in South Africa grew rapidly until the 1980s, while the absolute size of the labour force was clearly not a constraint on growth, as evinced by dramatically rising unemployment since the 1970s. More likely candidates to explain South Africa's sluggish growth are the skills of the work force and the efficiency with which the economic system functioned. A major determinant of both was stale economic and social policy.

In the first place, aspects of the apartheid system appear to have constrained economic growth throughout the post-war period. The most important single factor here may have been the slow growth of black labour productivity and skills. Under apartheid, blacks were discouraged or prevented from acquiring higher education and advanced skills, and, even if they did, they could not hold the kinds of jobs where such skills could be effectively used and extended. At the same time, the economy suffered from a continual skills shortage, with costly efforts being made to import skilled white workers or train incompetent whites to fill skilled posts. It would have been far cheaper and more efficient to train blacks for such jobs, suggesting that black labour potential was drastically under-utilized under apartheid. Indeed,

abundant research for other countries suggests that one of the crucial factors determining any country's long-term growth performance is the growth and quality of its educational system (World Bank, 1991, ch 3).

This is the most important example of how the apartheid system impeded growth by preventing resources of all kinds from being utilized in their most productive fashion, or from moving between sectors and firms to their most efficient uses. Many other examples can be found. White agriculture and mining were favoured in various ways (influx control, restrictions on capital movement and investment, direct subsidies), to the detriment of high-productivity urban industry and services, so that the growth of the latter was impeded. By the same token, even within manufacturing the labour allocation system favoured low-productivity, labour-intensive firms and impeded their more efficient competitors. Finally, the African urban informal sector boomed in the 1940s, but was virtually destroyed as by-product of state economic and social policy in the 1950s, thus undermining or eliminating large swathes of productive activities.

The problem of slow economic growth cannot be attributed to apartheid alone, however. The apartheid state also followed a range of narrowly economic policies not particularly favourable to long-run growth in South Africa. Perhaps most importantly, the overall stress of the industrialization strategy was inwardly-oriented, designed to build up a local industrial base rather than produce for export, a wide range of instruments being used to this effect. While industrial output grew fairly rapidly during the 1950s and 1960s, opportunities for manufacturing export growth and technical progress associated with the post-war boom in world trade were frittered away. Likewise, the industrial decentralization programme proved expensive and predictably futile, while grandiose self-sufficiency projects (SASOL, ISCOR, ARMSCOR, etc) relied on large-scale subsidies and munched up valuable resources. For reasons like this I conclude that the socio-economic policies of the apartheid state - by wasting resources, opportunities and people's abilities - were the major reason why the economy grew so slowly throughout the post-war period.

### **The South African Economy in the 1990s**

In the early 1990s, South Africa could be classified as an upper-middle-income developing country. It was typical by many Latin American standards (compare to Sheahan, 1987, Part 1), with a medium-sized population, a somewhat inefficient industrial base and low levels of industrial exports, high inequality and persistent poverty, and continual political change and conflict. South Africa's 1989 GDP per capita, adjusted for the purchasing power of incomes across countries, has been estimated at US \$4958. While such summary statistics are always dubious, this is within 5 per cent of estimates for Yugoslavia, Chile, Brazil, Bulgaria and Poland, somewhat below Malaysia (\$5649) and above Syria (\$4358) (UNDP, 1992, Table 1). Real GDP per capita in South Africa fell at around 0.5 per cent per annum over the 1980s, which again was not particularly unusual for a developing country (see Table 1, given population growth in the range of 2 per cent per annum). Real incomes per capita probably fell at about the same rate, the effects of deteriorating terms of trade being offset in the statistics by informal sector growth.

The South African economy has various intriguing features, some of which will inhibit growth in the 1990s, others of which will encourage growth. Consider them in turn, starting with the bad news. To begin with, owing to low investment levels during the 1980s, particularly in manufacturing, the South African industrial structure is fairly old-fashioned, while the technological base may be deteriorating. Many machines - installed in the 1970s or earlier - are simply unable to compete with the latest capital goods in the developed and faster-growing developing countries. Space for immediate industrial expansion is lacking, due to high levels of capacity utilization, especially in manufacturing, while the revival in investment demand necessary for sustained recovery is likely to be elusive, reliant on expected future profitability and on political stability over a period of several years.

Secondly, the labour force suffers from a quality problem, in various respects. Black education under apartheid was generally deplorable; while spending has risen over the past two decades, parts of the educational system virtually collapsed during the 1980s; skilled whites have been leaving the country in large numbers; and high levels of unskilled long-term unemployment pose the danger that many such people - lacking skills, work experience and discipline - may never hold a formal sector job. Even with drastic and novel training programmes, this problem will constrain growth for a long time.

The implications for policies on inequality are many. To begin with, racial earnings discrimination fell hugely over the past two decades (see McGrath, 1990: pp 99-103), and these days most inequality in society can be explained simply by earnings differentiation within the labour force, much of which arises from the huge differences in personal productive capacity which apartheid encouraged. Meanwhile, the overall earnings dispersion has evened somewhat since 1970, encouraged by the spread of black education and rises in real black formal sector wages. Inequality among black households has risen, though, partly reflecting a decline in relative demand for unskilled labour and the exclusion of large numbers of people from the modern sector of the economy. The problem is that it is difficult to redress such a situation by passing on education, skills and experience to poor people quickly.

Thirdly, the economy relies heavily on gold and other raw materials exports. Such commodities are suffering from declining terms of trade, while world demand seems to be shifting away from them in the long run. It is essential that South Africa should move towards faster-growing and more fruitful exports markets in processed primary products and, especially, manufactures. Blithely relying on gold to keep them dollars rolling in, as was so much the case under apartheid, encourages inflexibility and inaction, not economic development (cf Ranis, 1990).

Finally, the economy is subject to considerable economic "rigidity" in various ways, in large part a legacy of the apartheid system. These can be regarded as social and cultural factors which constrain the flexibility and dynamism which is essential for economic growth. For example, great swathes of the state serve little economic function (e.g. homelands, administration); South African capitalists often seem remarkably short-sighted (e.g. failing almost completely to train black manual workers for semi-skilled or skilled positions on the mines), owing partly to the old apartheid ways of thought; while militant but rigid trade unions sometimes fail to deal with new technology in efficient ways, or make unrealistic earnings demands.

Not everything is dismal about the South African economy, however. It also enjoys some advantages which may pay off over the next few years. To begin with, the macroeconomy is stable and firmly under control. Foreign debts are moderate and easily serviced, allowing scope for moderate capital inflows and higher levels of indebtedness; inflation rates are stable at around the 14 per cent range, and the money supply is growing only slowly; the government budget deficit has been falling for the last three years. These factors contrast with situations of macro-economic disequilibrium in many developing countries (T Moll, 1992a). Moreover, despite the rigidities mentioned earlier it seems the South African economy adjusted well to devastating economic shocks in the 1980s, more so than in most developing countries. In some ways it has a capacity to adjust to changing circumstances and, given appropriate development policies, might adapt well to the economic conditions of the 1990s.

Next, the economy has some fairly advanced industrial sectors, which could be expected to take the lead in breaking into international markets (e.g. mining machinery, chemicals). Likewise, a number of large South African firms in mining, manufacturing and finance have extensive foreign experience and, if given appropriate incentives, could take the lead in conquering international markets (as occurs in countries like South Korea). Such monopolies

are often regarded as a political and economic problem. They certainly are a political complication, but given appropriate state policies and regulation, they could be a valuable economic advantage.

On a complementary note, the informal sector is large and dynamic, providing a source of incomes, growth and entrepreneurship to many people excluded from the formal sector. Its growth is likely to slow, however, if the rest of the economy recovers, and most of it is merely low-wage, low-productivity slavery.

Lastly, and looking further ahead, many of the remaining constraints of apartheid can be eliminated forthwith, freeing perhaps 3 per cent of GDP for better uses than in the past (Lewis, 1990: pp 145-49; Van der Berg, 1991). This might involve a shift of resources and people from sectors like defence/administration to housing/education. The benefits here are likely to be reaped over several years, however, while the costs will be felt immediately. Likewise, South Africa will enjoy increased access to foreign aid, investment and markets, thus lowering the costs of growth and improving its benefits; energy costs will fall and it should be possible to scale down or render more efficient useless industrial projects (though much of the latter has already happened).

A final, mixed factor to consider is the state of the world economy, expected to grow fairly steadily during the 1990s at around 2.5 to 3 per cent per annum (World Bank, 1991, Table 1.4). This is well below the rates of 4.5 per cent achieved during the "Golden Age" of world economic growth of 1950-73, and about the same as during the 1980s. But in the 1990s the international economy may be more stable than during the 1980s, with more consistent economic policies followed in the developed countries, which could mean fewer or weaker external shocks for developing countries. Finally, world trade during the 1990s is expected to grow rapidly, much faster than output and faster than during the 1980s. The shift away from traditional South African exports may increase, however, while industrial goods markets in the developed countries may be protected further and will be subject to tough competition from other developing countries, particularly in Asia.

In short, the South African economy is weak in many respects, but is under control and has some signs of hope for the future. However, the world economy will be a hard and unforgiving place in the decade or two ahead, and the old (failed) inflexible inward-oriented development strategies simply will not work. Objective circumstances, then, are a problem, but are not too bad. What will be far more important for future growth is the nature of the political and economic transition away from apartheid now being negotiated.

The political scene is often viewed simply as a problem for economic growth, with political violence and repression undermining conditions for economic development and progress (or, in the right-wing version, simply because politics interfere with the functioning of free markets). In many ways such a view is valid. But periods of political enthusiasm and change can also allow institutional adaptation and economic restructuring which may benefit long run economic development. Many post-war economies enjoyed rapid growth in the 1950s and 1960s, after being drastically reorganized during the later 1940s, allowing, for example, "a drastic improvement in the allocation and utilization of productive capacities" in France (Hennart, 1983: p 201). Another case is Colombia, where a vicious low-level civil war - "*La Violencia*" - raged between the two main political forces between 1948 and 1958, worsened by banditry and active revolutionary groupings. At that stage the Liberal and Conservative parties agreed on a strict power-sharing arrangement, and the country has enjoyed considerable political stability, steady growth and some redistribution of income ever since - though in many ways it is far from democratic (Hartlyn, 1988, chs 3-4; Bagley, 1984).

The chief political-economy forces at work in South Africa are twofold. On the one side, the drive for basic social and human rights for the mass of the population will continue, with negative economic effects if political struggles cannot be resolved. The economy will face

ballooning demands for mass welfare and the redistribution of income, in the form of struggles for land, rising government spending and higher black wages, possibly undermining white incomes and investment, and threatening the danger of inflation and macro-economic instability if nominal spending cannot be restrained. Unsatisfactory social and economic progress may well lead to continual political disruption and slow growth - this may be termed the "mass demands" constraint on economic development in South Africa.

On the other side, the South African economy is largely controlled by mobile and nervous investors and skilled people, largely white. Many lack confidence in the future of the economy, and could undermine or destroy it if they believe long-run economic or political circumstances are working drastically against them. Their opposition could take the form of political opposition (not necessarily legal), internal disinvestment (simply failing to invest), capital flight, and human capital flight. All these occurred during the 1980s, exposing the economy's vulnerability to uncontrolled social conflict and external reactions to local events. This factor may be termed the "white veto" on economic growth in South Africa (see, for example, Relly, 1990/91).

What may prove crucial to economic recovery in South Africa is the relation between mass demands and the white veto. The ideal would be some kind of social and political arrangement reconciling mass demands and the white veto with steady economic growth, to create the space for the economic welfare of everybody to rise. [3] If some "critical path" balancing these imperatives cannot be found, then future economic prospects can only be bleak.

#### **Economic Growth Paths<sup>[4]</sup>**

Let us now critically consider six growth scenarios proposed for South Africa, and how they propose to reconcile mass demands and the white veto with economic growth. (From now on this paper becomes highly speculative, based on guess-work for which space only permits a brief justification.) The scenarios are compared in terms of my view of the rates of growth of GDP in which they would result over the next decade or so. They are shown in Chart 1 and treated in turn, beginning with the worst and moving upwards. The preferred social democratic alternative is discussed in the following section. Note that all are "ideal types", extremes discussed for the sake of clarity. In practice, of course, any outcome in South Africa might combine features of several of these paths.

**Chart 1. Economic Growth Scenarios for the 1990s?  
Suggested ranking in terms of real CDP growth**

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***BEST***

The social democratic compromise

The controlled economy

Drastically free markets

Growth through redistribution

Socialism

Disintegration of the state

***WORST***

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To begin with the horror, consider the case where the state **disintegrates**, where political conflict and violence flourish to such an extent that the integrity and organizational capabilities of the central state begin to disintegrate or collapse. Most likely, it seems, if a militant Conservative Party programme were implemented, this outcome could take forms like violent processes of regional or other disintegration (as in Yugoslavia currently) or open civil war (Lebanon after 1976). It could combine the worst of all possible worlds: continued political instability, death-squads rampant, investment boycotts and a frenzied flight of capital and skilled people from the country, a state unable to play a proper developmental or welfare role, and high economic costs for a long time after the actual large-scale violence ended. Let us hope it does not materialize.

The other options all assume a working state and political structure. Firstly, consider the socialist alternative, popular within trade unions and on the South African left, involving a drastic takeover by the state - seen as representing the interests of the mass of the people - of much of the productive structure of the economy. The white veto would be eliminated, at one level, by the state taking over most of their formal economic decision-making power; in practice, of course, it would be felt by much of the bourgeoisie - accompanied by their skills and cash - leaving the country, perhaps permanently.

The transition costs of a move towards state control over resource allocation and socialism are almost always high, under the impact of external opposition and as new and inexperienced people begin making decisions at every level of the economy, particularly in non-agricultural societies which are more sensitive to pressures and shocks of all kinds. In the longer run, the records of a range of once-socialist countries suggests that socialism is accompanied by endemic inefficiency and cannot provide long-run economic growth - not, at any rate, beyond a fairly basic level of development (see P Moll, 1991). Accordingly, this path might well be associated with absolute economic contraction over the next decade or so. It seems, however, that the economic debate in South Africa has moved beyond this stage, most participants now accepting the inevitability of some variant on a capitalist development path. The rest of the growth alternatives discussed below take this for granted.

One of these has been termed **growth through redistribution**, as described in certain ANC policy documents and supporting academic papers. Such approaches are associated with drastic rises in government spending and aggregate demand, designed to benefit poor people; it is assumed that such moves will somehow induce rapid growth in output and productivity (through higher capacity utilization, or through more efficient usage of available productive resources) and economic recovery. Inasmuch as this approach is based on changes in the structure of demand, it appears to enjoy little empirical support. Efforts of this kind in other countries boosted economies for a year or two, but sooner or later led to inflation, balance of payments pressures and eventual costly economic adjustment (T Moll, 1991b; Dornbusch and Edwards, eds, 1991).

The short-run gains, then, were quickly cancelled out by the pains of excessive macro-economic expansion and eventual contraction to bring economic imbalances under control. In extreme cases of strategies like this being followed, poor people ended up far worse off than before, while long-run growth prospects were impeded owing to adjustment costs and sharp falls in investment and exports. A typical example is Peru in the later 1980s, where two years of rapid growth were followed by a dramatic economic contraction during which real wages more than halved (Lago, 1991, Table 9.4). Accordingly, if carried out with vigour in South Africa, this strategy would probably be associated with mildly negative long-run growth: positive in the first couple of years, negative thereafter as macro-economic imbalances appeared and the white veto was imposed. However, while strong political forces are pushing in this broad "macro-economic populist" direction (in typical Latin American fashion), such an outcome seems increasingly unlikely in South Africa, as experiences from other countries enter the debate and as it is realized that only supply-side interventions can markedly change the long-run distribution of income.

Yet another option, albeit improbable at present, is that of **drastically free markets**. Advocated by free marketeers and segments of business in South Africa, with qualified support from some international agencies, it is argued that a complete eradication of constraints on the functioning of markets (many associated with the social impediments of apartheid) will maximize growth and welfare in South Africa. The role of the state currently is seen as excessive, and would be drastically and indiscriminately contracted.

Looking simply at the economics, experience from other countries - e.g. in the Southern Cone of Latin America - suggests that markets are not nearly as stable and smoothly functioning as the strategy assumes, the role of the state in development cannot simply be eliminated, while specific moves recommended - e.g. the free movement of capital in and out of the country - can be disastrous. In South Africa, this free market approach would benefit largely skilled whites and the rich in the short run (though many poor people would benefit as well). It would cater splendidly to the white veto, but would be highly inegalitarian and politically unsustainable under current conditions. It could probably only materialize as a strategy of authoritarian desperation after radical economic restructuring strategies failed, as was the case in some Latin American countries (cf Sheahan, 1980).

Perhaps the most likely growth option for South Africa may be termed "**controlled**" **capitalism** (for a sophisticated presentation, see Harris, 1990/91). In this case, property relations are not changed on a large scale, but the attempt is made to modify economic power relations and income distributional processes through restructuring and controlling markets of all kinds, designed to benefit poor people, blacks and workers. In a sense, whereas markets were strictly controlled and directed under apartheid to the benefit of whites and specific groups of capitalists, similar kinds of controls would be used to benefit blacks (at least, in theory) - e.g. via minimum wage laws, controls on investment and capital movement, the maintenance of state enterprises and an expansion of the state role in the economy, and perhaps direct controls over prices, credit and imports. Such a strategy would be driven in part by strong state planning/socialist pressures, as in Zimbabwe.

It would yield some social and other benefits for poor people, and, if carried out reasonably efficiently, might lead to steady economic growth for a while, but the eventual dangers - drawing on Latin American experiences (see, e.g. Williamson, 1990) - are twofold. Firstly, controlled capitalism requires the state to bear a heavy administrative and organizational burden, but there would be plenty of scope for inefficiency, incompetence and mismanagement within a ballooning state apparatus. Secondly, the dangers of long-run stagnation should not be underestimated - the economy would potter along for a while, no doubt, but markets might be constrained to such an extent as to end up as inflexible as under apartheid, with the drive for efficiency impeded, while the new challenges of the world economy (e.g. regarding export growth) would not be confronted. Typically, excessive state interventions in labour market functioning could undermine employment growth and nullify the effects of other redistributive efforts, as has been argued of Zimbabwe (Durevell, 1989, pp 16-20). If carried out cunningly, mass demands would partly be met under controlled capitalism, while the white veto might be neutralized for a while. In time, however, the sluggish trajectory of the economy would become clear, and white investor confidence would be eroded. Accordingly, this strategy is again associated with sluggish economic growth, perhaps in the range of the 3 per cent per annum achieved by Zimbabwe in the 1980s, and slightly less than Chile in the later 1960s.

### **The Social Democratic Compromise**

In my opinion, comparisons with experiences from other countries (which is all we have to go by) suggest that all the above scenarios would entail slow or negative growth in per capita real incomes - an approximation of the rate at which the potential benefits of economic growth to the population grow in the long run. Zero real GDP growth - by no means impossible, if certain radical restructuring strategies are attempted - would lead to per capita

incomes falling by 20 per cent or more in a decade. While some benefits might be achieved by particular groups of poor people, especially in the last two cases, none of the above options offers much hope for South Africans in the foreseeable future. In fact, many academic participants in these debates seem unaware of the dangers their proposals involve and possible costs to people's lives in terms of poverty and slow growth.

A more pragmatic approach might be termed a **market-oriented social democratic compromise**, designed to meet the minimum aspirations of major social groups in South Africa (cf Lè Roux, 1990). In my interpretation, its basis is that economic restructuring would be designed to encourage renewed economic growth and allow space for systematic reformist redistributive strategies to be implemented. On the growth side, the state-run apartheid economy did not perform well, and it can be argued that a pragmatic reworking of the relation between state and market is required. Direct state economic intervention should focus on what states can do best (e.g. regarding skills formation, infrastructure, the social framework), though it should also play an important role in guiding the market towards long-term development ends. But considerable scope must be allowed for markets and the price system to do what they do well - transmitting information, encouraging efficiency in resource allocation - even if the effects thereof are non-equitable or nasty at times. Labour market interventions should be limited, informal sector deregulation encouraged, price controls strictly avoided, taxes and subsidies preferred to quotas, and the role of state enterprises in the economy reduced.

The first necessity for economic recovery is a vigorous industrial development and exports programme, designed to move South Africa back into world markets as efficiently as possible - disciplining local industrialists, enabling economies of scale to be reaped, and funding imports of high-productivity capital goods (see Bell, 1990, or Levy, 1992). Although advocates of greater economic openness often puff their case beyond belief, its importance to sustainable growth, employment-creation and economic independence is great. An export focus might begin with areas where South Africa has an immediate advantage (e.g. mining machinery, the Southern African region), but would gradually move towards the overhauling and rationalization of much of industry, and an export-orientation for large swathes of manufacturing. Considerable state monitoring and direction would be necessary here, with both general (e.g. via exchange rate policy) and industry-specific (e.g. subsidies) incentives being used - though where possible the latter should be based on objective performance criteria like export growth, as in East Asia.

Such a shift would, of course, have implications for economy-wide wage policy (as agreed on by state, trade unions and capital), the second element of economic recovery. One approach would be to preserve a real wage floor in the modern sector, but permit only moderate wage rises in the foreseeable future, with the effort being made to raise employment instead. A suitable earnings target might be for real modern-sector wages to rise at the same rate as real GDP per capita, allowing parallel wage rises for informal workers while permitting growing investment, exports and imports. In fact, if the South Korean model currently trendy on the left is taken seriously, real wages should only begin matching productivity growth once full employment is reached! From an equity view, this policy might also be appropriate since, at a national level, the most severe poverty in South Africa is not amongst people with formal jobs in the modern sector of the economy (see Wilson and Ramphele, 1989).

Thirdly, black education (both quantity and quality) and skills should be upgraded as rapidly as possible, while following trade and other policies which would facilitate the absorption of such workers in the economy. The aim would be to raise the productive capacity and incomes of poor people, while building up the skills base of the economy and enabling shifts towards more skill-intensive manufactured exports over time. The remarkable "growth through equity" development records of South Korea and Taiwan owed much to human capital formation of this kind (see, e.g., Fields, 1985).

A final growth priority is the preservation of strict macro-economic stability, designed to maintain aggregate demand consistently within the supply capacity of the economy. The costs to growth and welfare over the past few years of restricting inflation to its current modest range have been high, while the balance of payments is neatly under control; disruptions in macro-economic balance due to excessive rises in nominal demand should be avoided at all costs (T Moll, 1992a). The general government budget deficit could probably rise slightly above its late-1980s level of 3 per cent, but only if more spending was invested and not simply consumed. Another aim would be to limit government spending as a share of GDP, since this share is fairly substantial at the moment and taxes cannot be raised much further, in part to keep both variables within the range of international norms.

The second social-democratic thrust concerns the redistribution of income and wealth, aimed at greater social justice, economic efficiency and social stability. Whereas the costs of any radical redistributive programme in South Africa seem high, both through disrupting the current functioning of the economic system and through impeding efficiency and slowing growth, much could be done through implementing a set of determined reformist policies (cf UNDP, 1990, ch 3). The immediate priority should be action on poverty. The state could do a great deal through assistance for black farmers, school feeding and other nutritional programmes in poor areas, raising and improving the coverage of black pensions, widespread preventative health initiatives, low-wage job-creating public works, and so on (Wilson and Ramphela, 1989, ch 15; Natrass and Roux, 1991). In the longer term, drastic redistribution of state spending of all kinds is possible, towards better uses (e.g. from defence to housing) and from rich to poor people (from higher to secondary and primary education). Such policies, if carried out reasonably competently, could improve both efficiency and equity. Care should be taken in this process, though; the "white" educational system, for example, is both dramatically inegalitarian and a national resource for future growth.

The most important aspect of income distribution policy would be sustained action on education and skills, the central determinants of the distribution of income in society (Fields, 1988). Emergency apprenticeship and skills-training could be explored in this regard, as during the Second World War. Black occupational advancement in the state sector, management and the professions could be accelerated, drawing on lessons from Zimbabwe and elsewhere (Bennell and Strachan, 1992).

Finally, questions of changing the structure of asset ownership are particularly tricky. Short-term policy could focus on land (good from efficiency and employment viewpoints), perhaps using the proceeds of privatization programmes. In the long run, black ownership of other productive assets should be extended, for example, by assistance to black entrepreneurs, preference given to black-owned firms in allocating government contracts, or the use of compulsory wage-earner funds and pension funds to extend black control over business. Regarding both the occupational structure and capital ownership, policy targets could be proposed and strong incentives (through taxes or direct regulation) used to implement them, as in Malaysia (see below).

Social democrats cannot make grand promises about a wonderful, equal, miraculously fast-growing future for South Africa. But, if implemented carefully and systematically, with some foreign aid and investment, I think the kind of programme described could alleviate the worst poverty, slowly equalize the long-run earnings distribution, and be compatible with steady economic growth - perhaps in the 5 per cent per annum range (comparable to the 1960s, slightly ahead of the long-term Colombian record, and below Malaysian levels). But it is highly unsexy and may be difficult to campaign for politically, since it takes for granted that the integrated position of South Africa in the world economy cannot (and should not) be challenged, and that white capitalist economic domination will remain for a long time yet. Given that the policy alternatives available to South Africa are sadly limited, however, this approach might offer enough benefits to enough black groups - steadily rising employment, a welfare net for very poor people, some hope for poor families in the long run - to achieve substantial political support, while safeguarding most white economic interests not directly

dependent on apartheid. Not much of a basis for social compromise and consensus, perhaps, but better than is offered by the alternative options discussed.

And there are precedents from other conflict-ridden countries for such programmes, suggesting that reformism of this kind can work. One example is Colombia, where "fairly good economic management combined with moderate reforms has done a good deal in the last quarter century to improve living conditions for the majority of the Colombian people", while reducing inequality and avoiding mass repression (Sheahan, 1987, p 287) - a record most unusual for Latin America. An even closer analogy is Malaysia, where economic policy after the May 1969 racial riots aimed at "balanced participation", maximizing such growth as would reduce racial disparities between wealthy Chinese and Indians and poor Malays (53 per cent of the population of Peninsular Malaysia in 1970). Through vigorous programmes of land reform and agricultural development, education, employment-creating, outward-looking industrialization and assistance for Malay entrepreneurs, racial income and wealth disparities have fallen remarkably, while GDP has grown at some 6 per cent per annum - below potential, perhaps, but compatible with political and social stability (Faaland *et al*, 1990, chs 2 and 4; Jomo, 1990, chs 4 and 7).

A few years ago, social democratic proposals for South Africa looked like mere pipe-dreams. During the transition period away from apartheid, however, concessions are being made on all sides, and convergence on and political support for social democratic policies (under whatever label) are growing. Nonetheless, a political miracle - providing reliable policy compromises between viciously competing interests, and long-term social stability - is necessary for sustained economic recovery in South Africa. In practice, this could well require some form of sustained alliance (explicit or implicit) between the most powerful political groupings in the country, the National Party and the ANC. With such a political miracle and pragmatic social democratic economic policies, growth prospects are moderate. Without either, most South Africans are likely to become poorer for many years yet.

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#### Notes

- 1 Thanks to the Leverhulme Trust for funding the research on which this paper is based.
- 2 This section relies on T Moll (1990a; 1990b, chapters 5-6; 1991a); also Natrass (1991).
- 3 This is the kind of challenge facing most developing countries shifting towards democracy, and is especially similar to that of many Latin American countries in the 1980s. The differences in South Africa are the combination of the extent to which society has been racially structured, the sensitivity of external perceptions of political change, the strength of mass political organizations, and the mobility of white capital and skills.
- 4 This section draws on papers in P Moll *et al* (eds) (1991).

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