

position to obtain finance from the financial institutions. In order to solve the problem of homelessness it is suggested that in addition to addressing poverty and unemployment, special programmes be initiated to address the problems directly. The following initiatives are suggested :

- The state must recognize the housing shortage as a national concern. Arising from this there must be a clear national housing policy aimed at mobilising both the public and the private sectors to tackle the problem.
- The state must play a major role in providing infrastructure for housing. Public and private sector funds must be mobilised for this purpose. Pension funds are a case in point. The government should re-introduce prescribed assets. Pension funds ought to be required by law to invest a certain percentage of their funds in government stocks, and the proceeds should be earmarked for the provision of infrastructure for housing.
- Individuals must be encouraged to save for housing. Special tax incentives be provided to promote savings for home ownership.
- Employers and the state should subsidise interest on housing loans for the low income category. Again, incentives need to be given to the private sector to encourage it to assist the low income category.
- A different package has to be provided for the poor and those working in the informal sector. A higher capital subsidy would be more appropriate and in addition to this, subsidised loans managed through a specially created institution need to become available.
- A national electrification programme should be launched. At present 66 per cent of the country's population have no access to electricity, even though it has been shown that ESKOM has the capacity to initiate a large electrification programme. Electricity would contribute very significantly in lowering the cost of fuel to the poor and in improving the quality of life.

#### **4.4.2.3 TACKLING THE BACKLOG IN SOCIAL SERVICES - EDUCATION, HEALTH CARE SERVICES, WATER AND SOCIAL SECURITY.**

The provision of education, health care services and water has a direct contribution in improving the productivity and creativity of people. Progressive governments take the initiative in ensuring the provision of these services. The rationale is the positive impact they have in enhancing the quality of life and society in general.

A democratic government, therefore will be compelled to address the backlog in the provision of these services to blacks. The dilemma will be the financial constraints under which it will operate. Current expenditure on social services compares very well with international norms. This means that a new government will not be in a position to increase significantly its expenditure on social services as a percentage of the Gross Domestic Product (GDP). A slight increase will be possible from savings on general administration and from new taxes. Apart from this there is very little room for increasing expenditure on social services as a percentage of GDP.

This highlights something that the people of South Africa must be aware of all the time. The most effective means of generating revenue for social services is through higher economic growth.

The key message is that the country must not turn its attention completely to the provision of social services. There is a need to increase investment in economic activities

as well, because it is these activities which generate additional wealth. Many developing countries have experienced difficulties in the past because they concentrated their attention on social services at the expense of the productive sectors. South Africa must not fall into this trap.

To achieve the best results given the constraints it is suggested that the provision of social services be tackled in the following manner :-

- Steps should be taken to utilise available resources more efficiently. This includes the scrapping of all vestiges of separate facilities for the various racial groups and improvements in the allocation of physical and human resources.
- Equalisation of per person expenditure on all social services ought to be introduced with immediate effect.
- Education and training content and methodology be revised to make it more relevant to the development needs of the country.
- More cost effective technologies should be used to extend services to all sectors of the community. A focus on primary health services, for instance directed at rural communities, would greatly improve the health of the nation. Water, too, can be made available to all sectors of the country if appropriate technology is adopted.
- Priority needs to be given to the training of teachers and the upgrading of teachers at all levels.
- Compulsory free primary education should be introduced in areas with adequate facilities and steps taken to provide facilities to all areas to enable compulsory free primary education to be introduced throughout the country within five years.
- Steps be taken to upgrade secondary schools by providing adequate facilities, laboratories and books and moving in the direction of compulsory free secondary education at a later stage.
- A National Education Loan Scheme ought to be introduced to give assistance to university and technikon students who cannot afford to pay fees. In addition to this, state subsidisation of universities and technikons must be improved. It is accepted that a higher priority must be given to primary and secondary education but university students cannot be expected to carry the full cost of their education. The loan scheme must cover the shortfall only.
- Special attention ought to be given to training in critical areas like computer technology, engineering, management and economics. Black students should be selected and financially supported in these areas in order to ensure that the dependence of the black community on whites in these key areas is reduced.
- Arrangements be made to supplement state funding of capital projects in education, health and water provision with funds from the private sector.
- National medical aid scheme, national unemployment insurance scheme and a national pension fund scheme should be established as soon as possible. Membership of all schemes should be made compulsory to people in employment. In this way everyone would contribute towards his/her pension and medical expenses.



both land and capital and also benefited from various subsidy schemes provided by the government. Senior positions in the public service became the monopoly of whites, especially Afrikaners.

The results of these policies and practices on both the economy and on the economic contribution of blacks were disastrous - the creativity and entrepreneurship of the black people was destroyed, black poverty increased very rapidly, economic inequalities between white and black people escalated, the quality of life for blacks deteriorated, the shortage of skilled manpower in the economy at large became critical and, finally, the economy stagnated. It is reported that in 1980, the proportion of the total population with incomes below subsistence level was estimated at 50 per cent and for the Africans throughout the country the proportion was estimated to be 60,5 per cent; for those living in the "reserves", no less than 81 per cent of the households were in dire poverty (Wilson & Ramphela, 1989). The main cause of the exceptionally high level of poverty in rural areas is the fact that the movement of the African people to urban areas was artificially restricted. The situation was further compounded by failure to support small farmers and to provide infrastructure and social services in rural areas.

Gross racial inequality in incomes became the most glaring evidence of economic injustice. Wilson & Ramphela, (1989) report that in 1970 the richest 20 per cent of the population in South Africa owned 75 per cent of the wealth, compared with 62 per cent in Brazil and 39 per cent in the United States of America. The 1988/89 Race Relations Survey Report reveals that according to research by Prof S J Terreblanche, the total personal income distribution by population in 1987 was - Africans 27 per cent, Asian 3,5 per cent, Coloured 7,5 per cent, Whites 62 per cent and the population distribution was - Africans 74 per cent, Asian 3 per cent, Coloured 9 per cent and Whites 14 per cent.

Per capita income per annum by population group in 1987 is estimated by Prof S J Terreblanche to have been African R1246, Asian R4560, Coloured R3000 and White R14880 - giving an average of R3433. Prohibitions on blacks from participating in labour unions contributed very significantly in increasing income disparity between whites and other groups.

Another significant feature of the South African economy, is strong regional disparities in economic activity. The 1986 Annual Report of the Development Bank of Southern Africa shows that the "homelands" which account for 42 per cent of the total population generate less than 5 per cent of the Gross Domestic Product. This explains the high level of poverty in rural areas.

Behind all these inequalities is unequal access to land and financial assets. Until now (1990) whites have had unrestricted access to 87 per cent of the land, and control a disproportionately high percentage of the country's financial assets.

Underprovision of school facilities and the poor quality of education available to blacks is another unfortunate consequence of the misguided policies of the past. In addition to deficiencies in the education field there are serious shortcomings in the provision of health care services, water, electricity, housing, and basic infrastructure to blacks and to areas reserved for blacks by successive minority governments. These deficiencies constrain the economic productivity and participation of blacks.

What has even more direct economic implications is the low level of technical and managerial skills on the part of black people. In 1985, 69 per cent of the African labour force was composed of people who had not completed standard VI, only 22,5 per cent of the professional, technical and managerial positions were held by Africans, and Africans accounted for only 11,5 per cent of the total number of the economically

required is in respect of capital, training and advisory services, both to emerging businesses and to farmers. Success in this area has two major advantages:

- Economic participation is extended to disadvantaged groups, who may not have access to bank credit.
- The high employment potential of small businesses. It has been established that in all newly industrialised countries small businesses play a very significant role.

### **3.8 DEVOLUTION OF RESPONSIBILITY FOR THE PLANNING AND EXECUTION OF DEVELOPMENTS**

Community involvement and participation in the planning and execution of development must be nurtured. As far as possible government involvement must be aimed at giving support to grassroot initiatives. This will ensure a better articulation of the needs and aspirations of communities as well as their commitment to self-development. Non-governmental organisations must also be allowed to operate with no interference from government. They play a major role in stimulating self-reliance and creativity at the grassroot level. Initiatives by groups of individuals and/or communities to mobilise their own resources for economic projects must be facilitated through removal of legal constraints and unequivocal approval of such initiatives at the highest political level.

### **3.9 BUILDING MUTUAL TRUST BETWEEN MANAGEMENT AND LABOUR**

Good relations between management and labour are absolutely essential. They must be based on assumptions and values that are shared by both management and labour. In a situation where labour feels alienated, it is difficult to increase productivity. High productivity on a sustainable basis is only possible where mutual trust has been established. To achieve this the values and objectives of management and workers must be compatible. Involvement of workers in the decision making process through democratic structures facilitates the process, but it is wrong to assume that the Western model of handling labour relations is the most suitable for South Africa. There is a need for each country to develop its own management/labour model in the light of its own historical experiences.

### **3.10 PROMOTION OF GREATER EQUALITY**

Land reform programmes, state funding of education, provision of social services, poverty relief, subsidisation of emerging businesses and first-time home owners, support of employee share ownership schemes, redistributive taxation policies and other instruments of social development, all serve to advance greater equality. The choice of an appropriate combination of policies to achieve greater equality is determined by patterns of ownership and control in each country.

### **3.11 FORMULATION OF RATIONAL DEVELOPMENT STRATEGIES.**

Central planning has been discredited, and this must be accepted as a fact. But it is wrong to conclude that there is no need for planning whatsoever. Baum and Tolbert (1985) reporting on World Bank experience over 40 years have the following to say on the matter : "The best economic performance has come neither from countries with comprehensive central planning .....nor in countries where both the planning effort and economic management were weak ..... Instead, it has come in countries that chose to concentrate their efforts on devising a framework of price and other incentives to guide both public and private activity and on designing an appropriate public investment pro-

- tion (government funding of public housing and obligatory health insurance)
- Strict independence of the Central Bank and a strong anti-inflation policy position.

The important point in this system is that the role of markets in promoting economic efficiency is highly regarded. The State accepts that in pursuing social development objectives it must endeavour to avoid policies and measures which distort markets. Because of the success of the social market system in reducing poverty and inequality whilst at the same time ensuring economic growth, it is strongly recommended that in a new economic policy framework for a post-apartheid South Africa the need to uphold economic efficiency by refraining from interfering with markets be given a high priority.

The policy of the central government must be to leave the determination of key prices - wages, interest rates, foreign exchange rate value of the currency and the general price level to market forces ; to intervene only in exceptional cases when market failure or other structural factors impede market efficiency. The distortion of prices by governments is one of the main reasons for the economic collapse of many economies, especially developing economies. The temptation to pursue social objectives through price fixing or other forms of market distortion must be avoided.

The main role of government must be that of a facilitator, through the provision of social services and infrastructure - education training, health care services, water, electricity, housing, roads, etc - and the establishment and maintenance of a social, economic and political environment that is conducive to individual initiative and creativity. In the case of South Africa, the government will have to play a significant role in enabling the disadvantaged community to gain access to economic resources, - land and capital - and to attain meaningful economic participation.

In conclusion it is strongly suggested that the name given to the policy framework discussed above must reflect the central role of markets as well as the social responsibility of government and the private sector.

## 7. CONCLUSION

The recommended policy framework need not be given a name, but if this is considered to be necessary, it is suggested that it be referred to as a **Social Market System for South Africa**. This is a more appropriate description as it highlights the importance of both markets and investments in social upliftment as necessary elements in building an efficient economy, with a built-in system to promote greater equality. Markets are the feature that makes free enterprise economies superior to centrally planned socialist systems. Therefore, it is this feature that a new economic policy framework for South Africa must highlight. On the other hand, to ensure fairness and real equality of opportunities, deliberate social upliftment initiatives are essential, hence the need to emphasize the social element as well.

- Improvement of the technical and managerial skills of blacks through improved education at all levels. This should include the introduction of compulsory free primary education as soon as possible, upgrading of teachers, provision of adequate school facilities and major changes to curricula to make them more appropriate to the developments needs of the country.
- Planning and implementation of a land reform programme which will lead to a more equitable distribution of land, with minimal or, preferably, no negative impact on agricultural productivity. This should include a review of agricultural subsidies, measures to discourage the "hoarding" of land, acquisition of land by a state institution for the purpose of redistribution to blacks on the basis of need, and the provision of financial support to individual blacks to acquire land for agricultural or residential purposes.
- Improvements in social services - social pensions, health care services, water, housing, transport, electricity, etc. As far as possible, both public and private sector resources should be mobilised. To ensure that the limited available resources benefit as many people as possible, every attempt be made to adopt appropriate standards and to use affordable technology.
- Introduction of an affirmative employment programme aimed at increasing the number of blacks in managerial and technical positions. The programme would have to include training requirements and targets to be met within an agreed time frame. The parties to the agreement ought to be the government, employers and the workers.
- Promotion of asset ownership. Through special subsidies, the state would have to increase support to first time home owners, especially members of the low income groups. Employee share schemes would have to be supported and measures taken to encourage employers to assist employees to acquire shares. The general public also be encouraged to invest in instruments which enhance capital ownership.
- Democratisation of individual enterprises will be strongly supported through the protection of workers' bargaining rights and introduction of worker representation at management committees, including boards of directors.
- Poverty relief measures would be financially supported by the state. Support would have to include the reintroduction of school feeding schemes for the children of the poor, food stamps for the aged and those who cannot work because of poor health and special employment programmes. The shortage of resources is acknowledged as a constraint, but because of the devastating effect of poverty on people, serious efforts will have to be made to allocate resources to this programme.
- Homelessness will have to be tackled at a national level. The state would adopt a national housing policy and strategy. The strategy would be aimed at mobilising both public and private sector resources for housing. The involvement of the state would be primarily in the provision of infrastructure and capital subsidies to first time home-owners. Special attention would be given to the low income groups.
- Macro economic policies will give a high priority to the establishment of an environment which encourages savings and investment, attracts foreign capital and stimulates exports. Taxes will have to be in line with countries at the same level

## **4. A MACRO-ECONOMIC AND DEVELOPMENT STRATEGY**

### **4.1 INTRODUCTION**

Traditionally macro-economic policy is concerned with the correction of short-term economic changes. The objective being mainly the reduction of the impact of fluctuations arising from internal and external shocks. The means for pursuing macro-economic policy objectives are fiscal and monetary measures. Fiscal measures include taxation, state expenditure and the financing of deficits caused by disparity between revenue and expenditure. Monetary instruments include the regulation of the money supply, interest rate levels and the external value of the national currency.

Macro-economic policy in the traditional sense remains important, but of even greater importance in the case of South Africa is to combine macro-economic policy with development policy to correct the structural imbalances and distortions caused by many years of apartheid policies. The aim must be to change the focus of the economy from serving the interests of a minority to serving the interests of all South Africans. Economic efficiency and the upliftment of all South Africans must guide strategy formulation.

### **4.2 THE NATIONAL DEVELOPMENT PLAN**

To guide the medium to long-term development process it is absolutely necessary that a national development plan/strategy be prepared. The plan must contain at least the following:

- A review of the current state of the economy,
- A statement of national objectives and key macro-economic and development policies,
- A definition of goals to be achieved during the period covered by the plan,
- Fiscal and monetary plans,
- Sectoral development plans and arrangements for the financing of major development projects.

Information concerning the current state of the economy is readily available and is regularly updated. National macro-economic and development objectives and policies have already been presented. The other matters require further research. What follows is a brief analysis of some of the key issues that need to be addressed in order to place the South African economy on a path to long-term self-sustaining growth and development.

### **4.3 MACRO-ECONOMIC ISSUES**

The starting point in restructuring the economy is to remove all apartheid-linked measures and to replace them with instruments directed at enhancing economic growth and development. Savings and investment will have to be stimulated through appropriate monetary and fiscal measures - economic stability promoted by means of a "contract" between labour, employers and the government on wage increases, productivity and peace at the work place.

To attract foreign investment and to boost business confidence, the government will have to maintain corporate and individual taxation at levels which compare favourably with successful developing countries. To enable industry to replace obsolete machinery, exports will have to be promoted very vigorously, and foreign capital attracted to return.

gramme. These countries do not necessarily do less planning, but rather planning of a different kind".

In all successful developing countries development is based on systematic analysis of the country's needs, objectives and potential. The best policies for promoting economic growth and development are identified through systematic analysis and a National Development Plan is prepared to guide the development process.

### **3.12 ADOPTION OF EXPORT-ORIENTATED POLICIES.**

Experience shows that import substitution based industrialisation strategies do not reduce a country's dependence on imports, but reduce the ability to export instead. For this reason, in the long-run, such policies have a negative impact on economic growth. Export orientation, on the other hand, makes a positive contribution to growth, provided the country does have the capacity to provide high value added goods. To maximise benefits from international trade, developing countries have to concentrate on expanding their technological capacity. This will enable them to benefit from minerals and to manufacture high-technology goods.

### **3.13 MAINTENANCE OF ECONOMIC DISCIPLINE AND STABILITY**

Every government has a responsibility to commit itself and to do everything possible to keep inflation low, the foreign exchange value of the currency and interest rates stable and to strive for a low level of unemployment. Successful countries place a high premium on fiscal and monetary discipline to achieve this.

The suggested policies encompass both the macro-economic and development issues. They address the issues of economic growth, efficiency and stability, the broadening of economic participation, as well as the removal of factors which inhibit the development of less developed regions.

Because of the focus on both economic efficiency and the broadening of economic participation through initiatives which involve the private sector as well as the public sector, the policy framework cannot be categorised as advocating either the classical free market system or a socialistic system. But this does not mean that there is no common thread running through the set of recommended policies, a scrutiny of the package reveals that it strongly supports individual initiative, markets and the enabling of all sectors of the community to increase their incomes by engaging in meaningful economic activities. It is strongly advocated that the government must not promote dependency; instead it ought to support the people to be self-reliant by facilitating access to resources, social services and know-how.

The economic system that is closest to what is being advocated is the social market system of West Germany. The key features of a social market as it has evolved in West Germany are the following :-

- The sanctity of private property.
- Resource allocation and distribution of goods and services by markets.
- Maintenance of a competitive environment by means of strong anti-monopoly legislation and an effective monitoring mechanism.
- Protection of the right of workers to organise themselves into labour unions and worker representation at all levels of management including representation on the boards of directors of corporations.
- Corrections by the state aimed at improving the distribution of income and protecting the poor. This is achieved mainly through the promotion of asset formation among the low-income groups, direct transfer payments (e.g. child allowances and subsidisation of rental payments) and other direct state interven-

# **TOWARDS AN ECONOMIC AND DEVELOPMENT FRAMEWORK FOR A POST-APARTHEID SOUTH AFRICA**

## **1. INTRODUCTION**

In tackling the difficult task of formulating an economic policy framework to guide the process of meeting the economic aspirations of all South Africans when apartheid has been dismantled, there is a need to commence with a short historical account of economic developments until the beginning of the 1980's. The purpose of the exercise is to provide the background against which the process of policy formulation can be evaluated.

The logical starting point in tracing the economic history of modern South Africa is the arrival of the first white settlers in 1652. This marked the beginning of economic interaction and competition between the indigenous African people and the newly arrived white settlers. Within a short time conflict between the indigenous people and the white settlers over land and cattle became frequent occurrences. Davenport, (1977) reports that the first conflict between the white settlers and the indigenous Khoi khoi over livestock and property took place in 1659, and in 1673 the Dutch East India Company launched its first military campaign against Chief Gonnema of the Khoi khoi. Wars over land and cattle carried on until the various African kingdoms were completely vanquished and deprived of most of their economic wealth. First it was the Khoi khoi and the San in the Western Cape, and later on the Xhosa, Zulu, Sotho, Pedi and other African kingdoms in the Eastern Cape, Natal, Orange Free State and the Transvaal. The process was completed with the defeat of the Sotho under King Moshoeshoe in 1866, the Xhosa under King Sandile and Sarhili in 1877, the Zulus under King Cetshwayo in July 1879 and the Pedi under King Sekhukhune in September 1879.

The formation of the Union of South Africa in 1910 ushered in a new process of economic emasculation. Legislation became the main instrument for depriving blacks of the means and opportunities to achieve economic advancement. They were deprived of land through the Land Acts of 1913 and 1936, as well as many other apartheid laws like the Group Areas Act of 1950. The "civilized labour policies" and the "Colour Bar" Act of 1926 (Mines and Works Amendment Act) introduced by the Hertzog government were clearly aimed at advancing the economic interests of whites at the expense of blacks. Many other laws directed at retarding the economic advancement of blacks were enacted by successive governments from 1910 to 1982. These laws imposed restrictions applicable to blacks on ,inter alia, the following :

- Access to land and capital, labour mobility, right to choose a job or career, right to belong to a labour union, access to good quality education and training and the right to engage in business activities.
- The provision of infrastructure to black areas was given a low priority whilst white areas were continuously upgraded. Good schools and housing were provided to whites with state assistance and very little was done for blacks. Technical training and University education were developed very rapidly for whites, while black access to tertiary education remained extremely restricted.
- In the work place whites received preferential treatment. The racial prejudice promoted by successive governments assured them supervisory positions over blacks and rapid promotion to positions of power and control. They had preferential access to



- The cost of providing water, health care facilities and electricity must be recovered from users. Those who cannot afford be targeted for special assistance.

#### **4.4.2.4 BLACK ECONOMIC EMPOWERMENT IN BUSINESS AND AT THE WORKPLACE**

The focus in this section is on activities that will enable blacks to be directly engaged in the wealth creation process in a substantive sense. This must be seen as a process and not as something that can be achieved immediately. Conditions have to be established for the process to commence and, once it has started, it must be supported and monitored continuously.

Education, training and the provision of social services are essential components of this process. The idea is to remove constraints that impede productivity and to compensate for the disadvantages of being late comers. The final objective is to achieve an equal opportunity environment in which blacks can stand their ground without being handicapped by many years of apartheid deprivation and exclusion.

##### **a) INCREASING BLACK OWNERSHIP AND CONTROL IN THE FORMAL ECONOMY**

- Blacks have to use their savings to invest in successful companies in the formal economy. The vehicle for this purpose must be Pension Fund Management Companies. These companies should be professionally managed by competent persons. They must be formed to perform the investment function. Investment portfolio management is a proven technique. There is no added risk from this kind of arrangement. What is required is the confidence of blacks in themselves.
- Employee share schemes should also be used to build capital and to increase black interest in the formal economy.
- Arrangements should be made for black companies to take over subsidiaries which have supply contracts with mother companies. The scheme should include loan capital or capital could be obtained from development corporations. Such schemes have great potential. It is reported that in Japan most of the multinationals have similar arrangements with smaller companies.
- Support of emerging businesses through the provision of capital, training and advisory services should receive increased attention. This should also include support to emerging farmers. Existing development institutions should be restructured to make them more effective or if deemed necessary new ones should be formed.
- Existing national economic and development institutions must be restructured or replaced by new non-racial organizations. Each institution should be mandated to pursue economic and social objectives in a specific field and be afforded maximum operational autonomy from government to pursue its objectives in an efficient manner. Chief executives and directors must be appointed on the basis of relevant experience, competence and commitment to the social upliftment of all South Africans. Present institutions that fall in this category include the Reserve Bank, Development Bank of Southern Africa, Industrial Development Corporation and others. Development Corporations established to serve homelands need to be replaced with subsidiaries of the national corporation or regional non-racial institutions.

taken into account and the level of taxation be such that only unproductive owners would feel the burden.

- All land owned by the state must be made available for black housing, agriculture and recreation. The process of identifying such land must start now and steps be taken to transfer ownership to a common authority like a Land Development Trust.
- Special measures must be introduced immediately to prevent land speculation in anticipation of increased purchases by the state. For instance, consideration must be given to the introduction of a special tax on land transactions.
- An institution like a Land Development Trust must be established and be used to mobilise funds locally and internationally for the purpose of carrying out the land reform programme. Land acquisition and distribution must be systematically planned and managed.
- Unused and underutilised land owned by individuals and private sector companies must be identified and acquired by the Land Development Trust. The Government must not blindly rescue insolvent farmers. It must be stressed that the acquisition of land and its redistribution must be programmed with great care.
- Land purchased for urbanisation be transferred to a proper authority for the development of infrastructure. Once the infrastructure has been provided, plots be sold to members of disadvantaged communities. Assistance ought to be given to first time home owners in the form of a capital subsidy.
- Farming land should be made available on the basis of need and interest in agriculture. Available land ought to be divided into small farms in order to benefit as many people as possible. Experience has shown that small farms can be more profitable than big farms. The actual size of a small farm be determined on the basis of intended use and the potential of the region. New small farmers be assisted by agricultural development agencies with subsidised loans to purchase their farms, and with training and advisory services to improve productivity.
- The agricultural development agencies ought to be equipped to serve mainly the needs of small farmers. Assistance needs to be given to individual farmers, co-operatives and to companies. The choice of whether to operate on an individual basis or as co-operatives must be left to the people.
- The state must give special attention to the provision of essential infrastructure - roads, electricity, telecommunications, etcetera - to farming areas.

#### **4.4.2.2 ADDRESSING HOMELESSNESS**

In addition to poverty and unemployment, homelessness is another challenge that a democratic government will have to address. The shortage of houses in the country is exceptionally high. The squatter camps that are mushrooming all over are an indication of the acute shortage of shelter in the country. The Urban Foundation estimates the shortage at between 850 000 and 1,2 million units. Members of the black community believe that the shortage is much higher.

Of course what lies behind homelessness is poverty and unemployment. Ultimately the only way to solve homelessness is to find a solution to poverty and unemployment. People have no homes because they have no incomes. Therefore they are not in a

- Corrective actions by the state aimed at improving the distribution of income, promotion of asset ownership and protection of the poor by measures that do not distort the market.
- State initiated and co-ordinated provision of social services and social upliftment policies funded with resources mobilised in the public as well as the private sector.
- Democratisation of the workplace by protecting the bargaining rights of both workers and employers and promoting workers representation at all levels of management including boards of directors.
- Devolution of decision making to the lowest possible level. This encourages self-reliance and creativity as well as improve commitment and the rate of success of development project.
- Maintenance of fiscal and monetary discipline in order to ensure stability of the general price levels, the external value of the national currency, interest rates and a low level of unemployment. An independent Central Bank is crucial in this regard.

The suggested policies address economic growth, efficiency and stability, as well as the broadening of economic participation with a view to achieving a greater level of equality. The main thrust is the stimulation of individual initiative, economic efficiency and enabling all sectors of the community to enjoy higher incomes through enhanced economic participation.

The key factor in facilitating higher economic efficiency is the market. Experience in many countries has demonstrated very clearly that the feature which makes free enterprise economies superior to centrally planned socialist system, is the acceptance of the market mechanism as an allocator of resources. For this reason it is strongly recommended that the central government must leave the determination of key prices - wages, interest rates, exchange rate value of the currency and the general price level to market forces. It ought to intervene only in exceptional cases when market failure, temporary abnormal events or structural factors impede market efficiency.

The major development role of the government must be that of a facilitator, by ensuring a stable socio-economic environment, directing the provision of social services and guaranteeing equitable access to economic resources. In the case of South Africa, the government will have to play a major role in the provision of social services and in giving special support to blacks to enable them to improve both ownership and control of economic assets.

The practical measures to pursue the objectives will be spelt out in the macro-economic and development strategy.

## **5. STRATEGY PROPOSALS IN KEY POLICY AREAS**

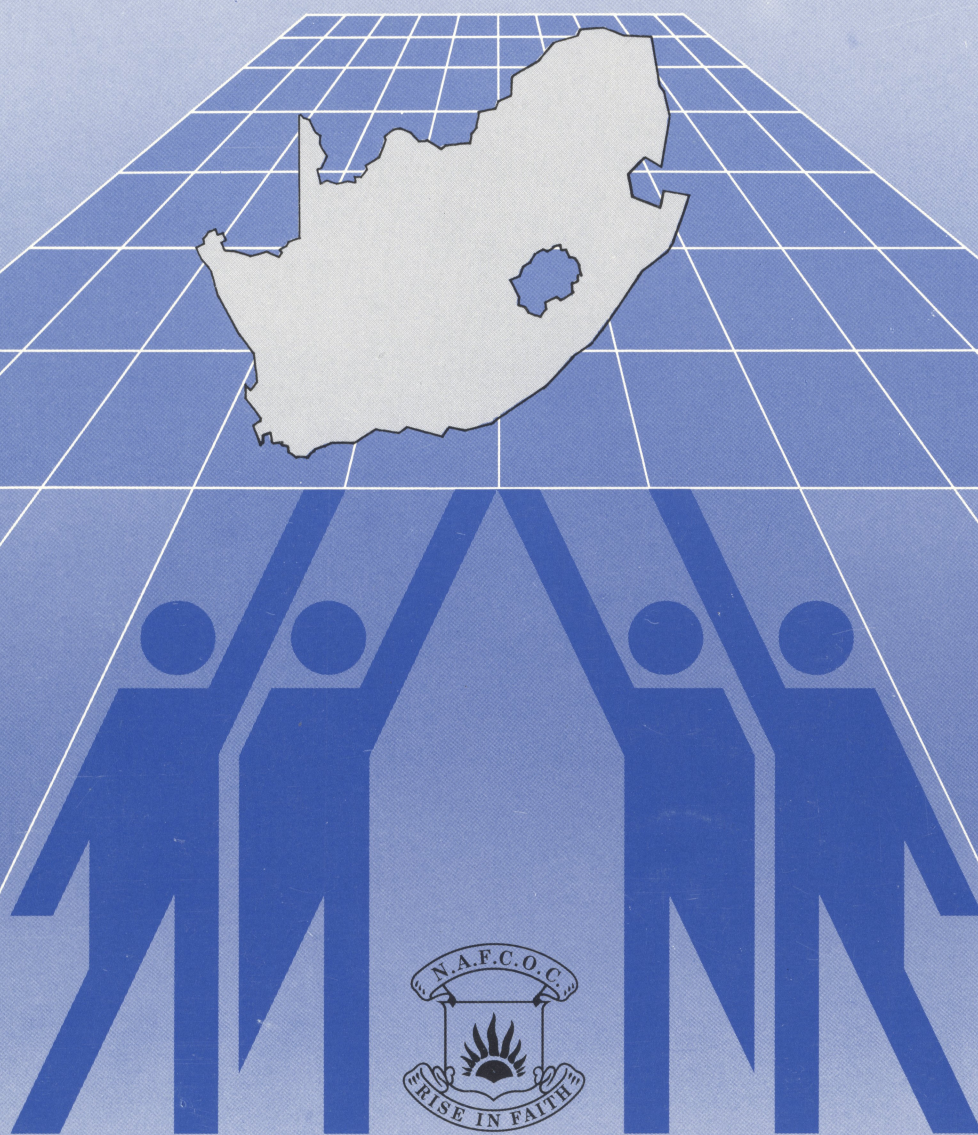
In a strategy document like this, only key issues can be addressed and the elaboration of policy details has to be left to future policy planning sessions and negotiation between policy makers. The following is a brief summary of some specific strategies considered to be appropriate to address the underlying issues and pursue policy objectives outlined earlier:

- Removal of all impediments to individual initiative and creativity, especially factors which inhibit economic activities at grassroots level.
- Promotion of entrepreneurship and emerging businesses at all levels. This must include informal sector activities, as well as initiatives by blacks to acquire major businesses in the formal economy. Support should include access to capital, and the provision of training and advisory services.



ANP/ 012/0093/2

Towards an economic and  
development policy framework  
for a post apartheid  
South Africa



A contribution to  
national economic policy debate  
by the National African Federated Chamber of  
Commerce and Industry



of development and precautions will have to be taken to ensure that guidelines for international investors are not too onerous compared to countries competing for the same investors.

- Redirection of government expenditure from defense and apartheid structures will become the main instrument of redistribution and the state ought to be able to give a high priority to social services without increasing the government financing deficit to damaging levels.
- Legislation would have to be adopted to encourage pension fund managers to channel more resources towards social development, without significantly harming long-term returns on pension savings.
- Existing national economic and development institutions will have to be restructured or replaced by new non-racial organisations. Each institution would have to be mandated to pursue economic and social objectives in a specific field, and be afforded maximum operational autonomy from government to pursue its objectives in an efficient manner. Chief executives and directors ought to be appointed on the basis of relevant experience, competence and commitment to the upliftment of all South Africans. Present institutions which fall in this category include the Reserve Bank, the Development Bank of Southern Africa, the Industrial Development Corporation, Eskom, Transnet and others. Development Corporations established to serve homelands or interests of any other racial group should be replaced with subsidiaries of national corporations or regional non-racial institutions.
- Precautions will have to be taken to protect the economically vulnerable whenever drastic adjustments have to be made to correct the economy. A good example is restrictions on money supply, which result in exceptionally high interest rates when the Reserve Bank is attempting to bring down the rate of inflation. In such a situation, the economically vulnerable sectors should be given special assistance through measures like additional subsidies of interest on housing and business loans and the very poor should be given food stamps.

## **6. THE NEED FOR A COHERENT DEVELOPMENT PLAN**

To tackle the task of restructuring the economy in a coherent manner, there is a need for a national development plan. The various priorities which have been determined need to be weighed against each other in a coherent manner, and policies for pursuing various objectives need to be examined for consistency. Goals to be achieved at various intervals ought to be clearly stated, required resources quantified and sources determined. Coherent development plans have to be prepared for each sector and the institutions required to plan and manage development programmes must be determined.

A long term budget (five year budget) is an important element of such a plan. The preparation of a long-term development budget will force the government to appreciate the financial constraints and as consequence the need to tackle only what is affordable.

Finally it is imperative that the process of restructuring the economy be guided by a carefully prepared national development plan. This is possibly the greatest task that the black people must concentrate on during the transitional phase.

Inevitably, these constraints and discriminatory practices led to the destruction of black entrepreneurship and creativity, increased poverty and unemployment among blacks, a rapid decline in the quality of life of blacks, a shortage of skilled manpower in the economy, increasing inequalities in incomes and wealth on a racial basis, declining economic growth and efficiency and finally the economic collapse of the middle 1980's

It is this situation that the proposed new economic policy is intended to address. The economic health of the country has to be restored and the handicaps to the economic advancement of blacks removed; special measures need to be taken to enable the black people to overcome the disadvantages of deprivation which have accumulated over the decades.

This short historical account gives a good indication of what the economic and development objectives of a post-apartheid South Africa should be.

### **3. PROPOSED ECONOMIC AND DEVELOPMENT OBJECTIVES FOR A POST-APARTHEID SOUTH AFRICA.**

- 3.1 Alleviation of poverty.
- 3.2 Improvement of the earnings of blacks by enabling them to engage in productive economic activities.
- 3.3 Stimulation of economic growth and job creation in order to meet the demands of an increasing population and rising material expectations.
- 3.4 Development and nurturing of human resource creativity and productivity.
- 3.5 Improvement of access to social services - education, health care services, water, electricity and housing.
- 3.6 Increasing the level of productivity and efficiency in all sectors of the economy.
- 3.7 Promotion of greater equality in incomes, wealth and economic opportunity.
- 3.8 Protection of the disadvantaged groups through the democratisation of structures in both the public and the private sector.
- 3.9 Maintenance of a high degree of internal and external economic stability, including prices, exchange rates, interest rates, balance of payments and employment.

### **4. MACRO-ECONOMIC AND DEVELOPMENT POLICIES FOR A POST-APARTHEID SOUTH AFRICA**

Given the history of the country, the economic and development objectives already presented and the experiences in successful developing countries, it is recommended that the main features of a macro-economic and development policy for a post-apartheid South Africa be the following :

- Protection of individual liberties.
- Protection of property rights with appropriate controls to prevent the formation of monopolies.
- Use of the market mechanism as the primary instrument for the allocation and distribution of goods and resources.
- Maintenance of a competitive environment through strong anti-monopoly legislation and effective monitoring mechanisms.



**Typeset and produced by the Economics Division of  
Standard Bank Investment Corporation Ltd. in the  
interest of fostering greater understanding of the  
issues confronting South Africa**



## **2. ECONOMIC AND DEVELOPMENT OBJECTIVES**

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### **3. KEY POLICIES TO ACHIEVE OBJECTIVES**

To achieve the stated objectives any new government will have to adopt a policy framework which reflects the key policies that have been found to be major positive determinants of economic growth and development in other countries. Fortunately the information is readily available in many publications produced by competent independent researchers and by international development agencies. Evidence gathered from these sources leads to the identification of the policies discussed below as pre-requisites to successful economic growth and development.

#### **3.1 THE PROTECTION AND EXTENSION OF INDIVIDUAL LIBERTIES.**

Individual initiative and creativity thrives in a situation where people are in a position to organize and engage in economic activities without being interfered with by government officials or over-zealous officials of the ruling party. The people must feel free to think for themselves and to develop their ideas.

It is this kind of environment which stimulates the people to use their own experiences to mobilize themselves and to provide for their own needs. The main characteristic of traditional societies is self-reliance. The preparedness to make sacrifices to achieve objectives is deep-rooted in traditional societies. The extension of freedom must seek to protect and uphold these values and not to suffocate them by imposing a dependence on assistance coming from outside.

#### **3.2 PROTECTION OF THE RIGHTS OF PERSONS - EITHER AS INDIVIDUALS OR GROUPS - TO OWN PROPERTY, INCLUDING THE MEANS OF PRODUCTION.**

Over the years man has demonstrated that the desire to own property is one of his fundamental characteristics. Therefore depriving people of this right is to deprive them of the right to be fully human. Experiences in developed countries shows that ownership of property gives people a sense of belonging and a feeling of security and this leads to improved social stability.

The desire to own property also serves as an incentive. It stimulates people to work hard and to save, hence the assertion that people must be free to own property either as individuals or groups - companies or co-operatives.

The only restriction on ownership of property ought to be applicable in cases where there is a risk of high concentration of ownership which may lead to abuse of power to the disadvantage of society at large.

#### **3.3 NURTURING OF VALUES AND ATTITUDES WHICH MOTIVATE PEOPLE TOWARDS SELF-RELIANCE.**

It is said that Christianity played a major role in nurturing individuality, self-reliance and frugality in the West and this led to a culture of competition and hard work. In Japan Confucianism which stresses loyalty to the state, filial piety to one's parents, faith towards friends and respect towards one's elders, has motivated the Japanese people to be loyal to their companies and to work hard for the good of their families and their country.

Experience in many countries shows that for development to take place, the people must be motivated to accept the responsibility of bringing about their own upliftment. A new way of thinking has to be developed, otherwise the African people in particular will never overcome the economic, political and cultural dependence on Europeans or

urban and rural areas and should also provide training for the participants. The programme may also include young people who have completed primary education but are unable to find jobs. Their training would have to be increased to a higher level.

- Expansion of training for the unemployed. At present not enough attention is given to this issue.
- Improvement in old age pensions. In some areas old people experience great difficulties in getting registered for old age pension. In addition to making sure that those who are entitled to old age pension receive it, the annual payments ought to be increased to a level that enables the pensioners to meet their basic needs.
- Privatisation can also be used to benefit the poor. When a post-apartheid democratic government decides to privatize state corporations, it can simply allot shares in these corporations to the poor instead of selling them for profits. Shares can be allotted either to all victims of apartheid or to a category of people who are unlikely to benefit from the establishment of a democratic system because they are uneducated and too old to undergo training.

#### **4.4.2 REDISTRIBUTION TO ACHIEVE BLACK ECONOMIC EMPOWERMENT.**

It must be stressed that the main rationale for redistribution is not only to correct the wrongs of the past, but to enable blacks to make a new start. As a consequence of apartheid policies, blacks have no economic resources whatsoever. It would be inadequate to confine oneself to dismantling apartheid and expect blacks to compete with whites who have been placed in a very strong economic position by government policies of the past. Whites have assets in the form of land, financial assets, technological and managerial know-how and contacts in the business environment. These give them a considerable advantage over blacks. Therefore to create a real equal opportunity environment there is a need to give special assistance to blacks.

##### **4.4.2.1 LAND REFORM**

The question of ensuring access to land is a very high priority. It is both an economic and a political demand. Blacks are aware of the need not to jeopardize the country's ability to produce food and therefore agree that the land reform programme must also be aimed at improving food production. With this in mind the land reform programme must inter alia cover the following :-

- Rationalisation of land laws and transfer procedures. Land matters must fall under one administration with a uniform set of procedures throughout the country.
- Removal of market distortions by reviewing the subsidization of the agricultural sector. The objective must not be to discontinue subsidies altogether because such a step would be unrealistic. Agriculture is subsidized in most countries. The aim must be to make sure that the present subsidies do not encourage inefficiency and that they yield benefits to the country as a whole. The process would probably cause some land to be placed on the market.
- Introduction of a land tax aimed mainly at discouraging the hoarding of land for speculative purposes. In taxing agricultural land, productive potential must be

**b) EMPOWERMENT AT THE WORK PLACE**

- The bargaining position of workers will have to be protected and enhanced through appropriate legislation and institutional arrangements. Worker representation at all levels including the boards of directors must be introduced. In the area of conflict resolution South Africa will have to consider developing its own system in the light of local experiences.
- State supported affirmative action must be introduced in both the public and private sector. Government departments and big corporations must be required by law to give high priority to the training of blacks in the key areas of management and technology. Targets and programmes will have to be determined and monitored jointly by representatives of the government, employers and workers.
- Employee share schemes will have to be encouraged as a way of promoting asset ownership and giving employees a say in the management of their enterprises. Guidelines need to be prepared for companies to assist workers to own shares.
- The State must play a leading role in promoting training. Training guidelines should be developed jointly by workers, employers and the government.

provision of infrastructure in urban and rural areas. The management of the economy will influence the attitude of the private sector and international development agencies. If the economy is well managed in the context of the recommended policy framework, there ought to be no difficulties in raising the necessary capital. Of course it will not be possible to achieve significant results in two to three years but over a longer period of five to ten years.

## FOREWORD

One of the most important resolutions to emanate from NAFCOC's Twenty Fifth Annual Conference, held at Sun City in August 1989, was one urging the organisation to organise an Economic Conference, involving all key players in the economy, as a means of enabling it to participate fully in the current debate on the framing of an appropriate future economic policy for South Africa.

In accordance with this resolution, the NAFCOC Council decided to establish an Economic Commission whose research functions and responsibilities centered not only around the organisation of workshops, conferences and the collating of data, but entailed also the commissioning of specific studies into various aspects of the economic and socio-political milieu.

During 1990 the NAFCOC Economic Commission was responsible for organising a successful conference held at the Transkei Wild Coast Sun International Hotel; and also an important workshop on land in Johannesburg towards the end of the year. It is envisaged that during 1991 several workshops will be held at which specific attention shall be given to other sectors of the economy. The main object in arranging such workshops and seminars is to enable NAFCOC in the long run to formulate an appropriate and sound macro-economic policy framework that has the possibility of enjoying the widest public support in the country.

This document is an outline of the macro-economic policy framework, which was discussed and approved by the 6th NAFCOC Summit Conference held at Sibasa in October 1990. The policy framework enunciated in the document does not purport to represent a complete and final version of NAFCOC's economic policy. It does however encompass a substantial number of economic policy options, which NAFCOC fully supports. The document is presented as NAFCOC's contribution to the on-going debate, primarily with the object of provoking further public comment and discussion.

NAFCOC is deeply indebted to the members of the Economic Commission and more particularly to Professor W L Nkuhlu for his enormous personal contribution towards the editing and compilation of this initial NAFCOC macro-economic policy framework.

Members of the NAFCOC Economic Commission are:

Prof W L Nkuhlu (Chairman)  
Mr M Lekota  
Mr A S Nkonyeni  
Mr K J Hlongwane  
Mr V Phaahla (Director, NAFCOC Research Unit)

DR S M MOTSUENYANE  
PRESIDENT - NAFCOC

# **EXECUTIVE SUMMARY**

## **TOWARDS AN ECONOMIC AND DEVELOPMENT POLICY FRAME- WORK FOR A POST-APARTHEID SOUTH AFRICA.**

### **1. INTRODUCTION**

The National African Federated Chamber of Commerce and Industry's (NAFCOC) point of departure is that in order to achieve both economic growth and greater equality, economic policy must focus on both macro-economic and development issues. The policy must aim at stimulating economic growth and efficiency on the one hand, and at increasing the incomes of all South Africans through enhanced economic participation on the other. For historical reasons, the majority of the people whose incomes must be increased through enhanced economic participation are blacks who have been either excluded from the formal economy or employed in low skill, low income activities.

The suggestions concerning a macro-economic and development policy framework are structured as follows:-

- Background statement.
- Proposed economic and development objectives for a post-apartheid South Africa.
- Strategy proposals in key policy areas.
- The need for national economic planning.
- Proposed macro-economic and development strategy.

### **2. BACKGROUND STATEMENT**

Apartheid was invented for the purpose of securing the political and economic power and control of whites. Therefore, to dismantle the system completely, both pillars must be broken. The establishment of a non-racial political democracy will address racial exclusion from political power, but will not necessarily solve the question of economic exclusion and deprivation. To break the second pillar of apartheid, which is black economic deprivation, the focus of the economy needs to be changed from serving the needs of a minority to serving the needs of all South Africans. This is the meaning and objective of economic restructuring envisaged in this proposal.

An analysis of the history of the country clearly shows that the period from 1652 to 1910 was characterised primarily by conflict between whites and indigenous Africans over cattle and land. The various African kingdoms were finally defeated by whites during the second half of the nineteenth century and in the process lost most of their cattle and land.

From 1910 onwards, state legislation and denial of basic freedom to blacks became the major means of securing the economic progress of whites and constraining the economic advancement of blacks. The laws that were enacted imposed restrictions on the following :

- access to land and capital, labour mobility, right to choose a job or career, right to belong to a labour union, access to good quality education and training and the right to engage in business activities. Blacks were also either deprived of access to essential services - health care, housing, water, electricity, telecommunications, etc - or, where these services were supplied, they were both inadequate and of a poor quality.

## CONCLUSION

It is recommended that a macro-economic and development policy framework with the following features be adopted :

- Protection of individual liberties.
- Protection of property rights with appropriate controls to prevent the formation of monopolies.
- Resource allocation and distribution of goods and services by markets.
- Maintenance of a competitive environment through strong anti-monopoly legislation and effective monitoring mechanisms.
- Corrections by the state aimed at improving the distribution of income, promotion of asset ownership and protection of the poor by measures that do not distort the market.
- State directed provision of social services and social upliftment which mobilizes both the public and private sector resources.
- Democratization of the workplace by protecting the bargaining rights of both workers and employers and promoting worker representation at all levels of management including boards of directors.
- Devolution of decision making to the lowest possible level. This encourages self-reliance and creativity as well as improve commitment and the rate of success of development projects.
- Maintenance of fiscal and monetary discipline in order to ensure stability of general prices, the external value of the national currency, interest rates and a low level of unemployment. An independent central bank is crucial in this regard.

The policy framework need not be given a name, but if this has to be done, it is suggested that it be referred to as a **SOCIAL MARKET SYSTEM FOR SOUTH AFRICA**. This is a better description than a "Mixed Economy" because it clearly acknowledges the importance of markets in building an efficient economy. Markets are the feature that makes free enterprise economies superior to centrally planned socialist systems. Therefore, it is this feature that one must highlight in a new economic system for South Africa.

Secondly, it highlights social responsibility; i.e. the responsibility of both the government and the private sector to promote greater equality and the upliftment of the disadvantaged communities through a variety of measures. Economic efficiency and social responsibility are viewed as two sides of the same coin. Both are important and must be pursued in a compatible manner.

The overriding objective of the policy framework is to free the productive and creative capacity of all the people of South Africa and to promote the optimum utilization of the country's resources. This will yield self-sustaining economic growth and development. To achieve this, the ordinary people of this country must be enabled to generate wealth and to enjoy the benefits of their efforts.

The emphasis on the provision of social services, elimination of poverty, improvement in access to resources and economic empowerment of blacks in business and in the work place, are all necessary contributions towards enabling black people, who have been disadvantaged for decades, to be creative and productive. To bring this about, resources have to be redirected to these programmes, and the process of doing this is referred to as redistribution. The real objective is not redistribution, but economic empowerment and creation of an equal opportunity environment. The whole exercise is directed towards this goal.



## **5. THE FINANCING OF THE SOCIO-ECONOMIC PROGRAMME**

It is quite clear from the preceding discussion that a new government will not be in a position to finance all its urgent social development programmes from own resources. Current revenue may be increased from the present level of 23,1 per cent of GDP (which is in line with international experience) to say 26 per cent according to Prof S Van der Berg of the University of Stellenbosch. The introduction of new taxes may enable the increase from 23,1 per cent to 26 per cent of GDP to be achieved, but this will have a very limited impact.

To finance the social development programmes, the government will have to determine its priorities very carefully and make suitable arrangements to engage the private sector in the financing of capital projects at least. It is suggested that the government resist at all costs the temptation to use loans to finance recurrent expenditure. As a matter of policy, recurrent expenses of the government including those of social programmes managed by the government, will have to be covered by current revenue.

It is recommended that as far as possible, capital projects like the building of schools, hospitals, provision of infrastructure, electricity and water be managed outside the central government structures. Either specialised state corporations will have to be established, or the task of managing these projects be delegated to lower level authorities like provincial administrations. The state would make its contribution directly to these autonomous development corporations and second-tier authorities. This will improve efficiency and also enable these organisations to use financial gearing to expand their resources. They will use their capital base received from central government to borrow from the private sector at commercial interest rates, but the cost-free capital provided by the central government will reduce their average capital cost significantly. In this way capital available for social development projects will be greatly augmented. This can be further extended by obtaining soft loans from overseas countries and development agencies. Arrangements of this kind have great potential, provided the country remains politically stable and business confidence in the government remains strong. Through this kind of financing the resources available for development can be doubled or quadrupled very easily.

Loans from the private sector ought to be repaid from revenues collected from users of services and from future taxation revenue.

Another possibility is to persuade the private sector to make voluntary contributions to a national fund - this ought to be a one-off contribution calculated as a small percentage of accumulated reserves. The fund would then be used to redress the backlog in social services. If the private sector agrees, this would be a wonderful gesture and would contribute in healing the wounds and bringing South Africans closer together. The funds would be managed by a special agency and the private sector would be adequately represented on the board of trustees.

Mention was made earlier on of the possible re-introduction of prescribed assets. This is another avenue. The point is to make pension funds available for development. They can be invested in development projects via government stock, or be used to augment the financial resources of building societies. In either case the objective is to make more capital resources available, not to call on Pension Fund managers to accept lower interest rates.

World Bank funding will also be available. The projects which will require a high level of capital funding include, the land reform programmes, education, housing and the

Government expenditure will have to be rationalised with a view to releasing funds for the social upliftment programmes. Savings from reduced expenditure on defense and abandonment of apartheid structures be redirected principally to social upliftment programmes. In effect, state expenditure should become the most potent redistribution and social upliftment instrument.

Consideration will need to be given to the introduction of new taxes aimed at discouraging "land hoarding". The investigation will include a thorough assessment of the possible impact of such taxes on economic growth and productivity.

There may be room for slightly increasing deficit financing. This could be exploited, but the general policy must be to accept international norms as a guide in determining the limit of the state deficit as a percentage of the gross domestic product.

#### **4.4 ADDRESSING URGENT PRIORITIES**

Poverty, unemployment, access to economic resources, provision of social services and affirmative action to upgrade the economic participation of blacks are by far the most pressing problems that a new government will have to address.

It is accepted that in the long-run the real solutions to all these problems is increased economic growth and development. But it needs to be noted that economic growth as such is a necessary, but not a sufficient, condition for alleviating poverty and improving distribution. Therefore there is a need for special measures aimed at addressing these problems.

##### **4.4.1 POVERTY AND UNEMPLOYMENT**

The increase in the percentage of the economically active population not accommodated in the formal economy indicates increasing poverty. It is reported that whereas in 1970 approximately 60 per cent of the black economically active population was accommodated in the formal economy by 1988 the percentage had dropped to 52. Poverty figures given earlier indicate that at least 62 per cent of the African population lives under poverty conditions. To address this sad situation, action along the lines suggested below is required urgently:

- Immediate re-introduction of a state funded school feeding scheme for the children of the poor.
- Introduction of food stamps for distribution to the old and those who cannot work because of poor health.
- Creation of an environment which allows and encourages ordinary people to engage in activities which address the basic needs of their communities. This includes the preparation and selling of food-stuffs, building of shelter and the provision of other services required at a micro level. The rapid urbanization process triggered by the scrapping of influx control legislation offers opportunities for the people to earn increased incomes through addressing the needs of their communities.
- Provision of appropriate support to individual and community initiatives aimed at alleviating poverty and engaging the people in self-initiated economic activities. This could possibly be channelled through non governmental organisations (NGO's).
- Introduction of a state-funded special employment programme to provide jobs for the poor. The programme should aim at improving the infra-structure in black

people of European origin. For as long as this does not happen, true development in South Africa will not take place.

### **3.4 USE OF THE MARKET MECHANISM AS PRIMARY INSTRUMENT FOR THE ALLOCATION AND DISTRIBUTION OF GOODS AND RESOURCES**

Markets have proved to be the most efficient mechanism for allocating resources and distributing goods and services. They lead to an efficient distribution and processing of information and this in turn leads to an autonomous balancing of supply and demand. Attempts by bureaucrats to interfere with markets through price fixing leads to serious distortions. In a number of developing countries, the agricultural sector has been on the decline as a result of price fixing by bureaucrats. It should also be noted that centrally planned economies failed mainly because the bureaucrats were not able to collect and process all the information necessary in order to balance supply and demand.

Because of the important role of markets in promoting economic efficiency governments should refrain from interfering with them. In cases of temporary market failure the solution must be aimed at removing those factors which impede market efficiency, or at restoring normality where abnormal events have caused a distortion. Interventions should not be aimed at taking over the allocative function. Where state intervention is necessary in order to protect vulnerable sectors of society, the solution must be targeted at the groups affected and the distortion of the price mechanism must be avoided.

### **3.5 SUPPORT OF THE DEVELOPMENT OF HUMAN RESOURCES**

The technical, managerial and entrepreneurial capability of the people is the most important determinant of economic growth and development. All the successful newly industrialised countries (NICs) have one thing in common:- they place a high priority on education and training. Governments play a leading role in supporting improvements in education. Virtually all of them introduced compulsory free primary education at an early stage.

The other common feature is the emphasis on technical training at all levels. Linked to this is the development of entrepreneurs and emerging businesses. As a consequence of the high standard of education and technical training, these countries find it easy to absorb new technologies.

### **3.6 PROVISION OF SOCIAL SERVICES AND INFRASTRUCTURE**

The availability of health care services, clean water and electricity has a direct bearing on the quality of human resources. Education and training is of little use if the other services are not provided. They do not only ensure hygienic conditions but also support productivity. Good roads, telecommunication and other infrastructure improve accessibility and the mobility of goods and services. Therefore, their provision in all areas which have economic potential is essential to the development process.

### **3.7 PROMOTION OF ENTREPRENEURSHIP**

The lack of an entrepreneurial and managerial tradition in developing countries has been found to be a major constraint to economic participation. Support to emerging businesses, therefore plays a major role in overcoming this problem. Assistance

active population with University degrees and post matric diplomas. (National Manpower Commission Annual Report, 1988).

The most devastating consequence of apartheid is the economic stagnation of the last few years. Over the period 1973-1980 the per capita Gross National Product grew at a disappointing average annual rate of 0,6 per cent and for the period 1980-1985 an average annual decline of 1,3 per cent per capita was experienced. Unemployment has become a major problem. Whereas in 1982, 78 per cent of the labour force had jobs in the formal economy, the percentage declined to 65 in 1987. This means that the ability of the formal economy to absorb labour is declining at a time when the labour supply is increasing by at least 450 000 new entrants a year. The most recent estimate is that more than 40 per cent of the potentially economically active labour force cannot find jobs in the formal economy.

The financial crisis of 1985 was another indication of the poor state of the apartheid economy. International banks demanded the repayment of short term loans owed to them and this could not be met. The result was a debt standstill arrangement of a temporary moratorium on the repayment of short-term foreign debt. At that time the total loan commitments amounted to \$23 billion and this has been reduced to \$20,6 billion by 1989 through a phased repayment of short-term debt under various interim arrangements with the short-term foreign creditors, and through the repayment of all long-term debt on maturity.

Partially related to this balance of payments crisis was the collapse of the exchange rate of the rand, from US \$ 1,28 in 1980 to US \$ 0,46 in 1985.

It is therefore very clear that there is a need for imaginative policies to lead the economy out of the downward trend of the last 15 years. The factors which underlie this trend are clearly mainly structural rather than merely cyclical. Therefore, to turn the economy around demands that the structural imbalances and weaknesses which have accumulated over decades and which have become pervasive during the last decade, are aggressively addressed.

The policy framework presented below is an attempt to address the underlying issues in a systematic manner. The objectives are derived from the material conditions of the disenfranchised majority and key development policy elements are deduced from the experiences of successful developing countries. Finally, the macro-economic and development strategy suggests practical measures to address the real economic issues in the context of policies which have been found to be key determinants of economic success in other countries.

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urban and rural areas and should also provide training for the participants. The programme may also include young people who have completed primary education but are unable to find jobs. Their training would have to be increased to a higher level.

- Expansion of training for the unemployed. At present not enough attention is given to this issue.
- Improvement in old age pensions. In some areas old people experience great difficulties in getting registered for old age pension. In addition to making sure that those who are entitled to old age pension receive it, the annual payments ought to be increased to a level that enables the pensioners to meet their basic needs.
- Privatisation can also be used to benefit the poor. When a post-apartheid democratic government decides to privatize state corporations, it can simply allot shares in these corporations to the poor instead of selling them for profits. Shares can be allotted either to all victims of apartheid or to a category of people who are unlikely to benefit from the establishment of a democratic system because they are uneducated and too old to undergo training.

#### **4.4.2 REDISTRIBUTION TO ACHIEVE BLACK ECONOMIC EMPOWERMENT.**

It must be stressed that the main rationale for redistribution is not only to correct the wrongs of the past, but to enable blacks to make a new start. As a consequence of apartheid policies, blacks have no economic resources whatsoever. It would be inadequate to confine oneself to dismantling apartheid and expect blacks to compete with whites who have been placed in a very strong economic position by government policies of the past. Whites have assets in the form of land, financial assets, technological and managerial know-how and contacts in the business environment. These give them a considerable advantage over blacks. Therefore to create a real equal opportunity environment there is a need to give special assistance to blacks.

##### **4.4.2.1 LAND REFORM**

The question of ensuring access to land is a very high priority. It is both an economic and a political demand. Blacks are aware of the need not to jeopardize the country's ability to produce food and therefore agree that the land reform programme must also be aimed at improving food production. With this in mind the land reform programme must inter alia cover the following :-

- Rationalisation of land laws and transfer procedures. Land matters must fall under one administration with a uniform set of procedures throughout the country.
- Removal of market distortions by reviewing the subsidization of the agricultural sector. The objective must not be to discontinue subsidies altogether because such a step would be unrealistic. Agriculture is subsidized in most countries. The aim must be to make sure that the present subsidies do not encourage inefficiency and that they yield benefits to the country as a whole. The process would probably cause some land to be placed on the market.
- Introduction of a land tax aimed mainly at discouraging the hoarding of land for speculative purposes. In taxing agricultural land, productive potential must be

Finally it is imperative that the process of restructuring the economy be guided by a carefully prepared national development plan. This is possibly the greatest task that the black people must concentrate on during the transitional phase.



**Typeset and produced by the Economics Division of  
Standard Bank Investment Corporation Ltd. in the  
interest of fostering greater understanding of the  
issues confronting South Africa**

Inevitably, these constraints and discriminatory practices led to the destruction of black entrepreneurship and creativity, increased poverty and unemployment among blacks, a rapid decline in the quality of life of blacks, a shortage of skilled manpower in the economy, increasing inequalities in incomes and wealth on a racial basis, declining economic growth and efficiency and finally the economic collapse of the middle 1980's

It is this situation that the proposed new economic policy is intended to address. The economic health of the country has to be restored and the handicaps to the economic advancement of blacks removed; special measures need to be taken to enable the black people to overcome the disadvantages of deprivation which have accumulated over the decades.

This short historical account gives a good indication of what the economic and development objectives of a post-apartheid South Africa should be.

### **3. PROPOSED ECONOMIC AND DEVELOPMENT OBJECTIVES FOR A POST-APARTHEID SOUTH AFRICA.**

- 3.1 Alleviation of poverty.
- 3.2 Improvement of the earnings of blacks by enabling them to engage in productive economic activities.
- 3.3 Stimulation of economic growth and job creation in order to meet the demands of an increasing population and rising material expectations.
- 3.4 Development and nurturing of human resource creativity and productivity.
- 3.5 Improvement of access to social services - education, health care services, water, electricity and housing.
- 3.6 Increasing the level of productivity and efficiency in all sectors of the economy.
- 3.7 Promotion of greater equality in incomes, wealth and economic opportunity.
- 3.8 Protection of the disadvantaged groups through the democratisation of structures in both the public and the private sector.
- 3.9 Maintenance of a high degree of internal and external economic stability, including prices, exchange rates, interest rates, balance of payments and employment.

### **4. MACRO-ECONOMIC AND DEVELOPMENT POLICIES FOR A POST-APARTHEID SOUTH AFRICA**

Given the history of the country, the economic and development objectives already presented and the experiences in successful developing countries, it is recommended that the main features of a macro-economic and development policy for a post-apartheid South Africa be the following :

- Protection of individual liberties.
- Protection of property rights with appropriate controls to prevent the formation of monopolies.
- Use of the market mechanism as the primary instrument for the allocation and distribution of goods and resources.
- Maintenance of a competitive environment through strong anti-monopoly legislation and effective monitoring mechanisms.

Government expenditure will have to be rationalised with a view to releasing funds for the social upliftment programmes. Savings from reduced expenditure on defense and abandonment of apartheid structures be redirected principally to social upliftment programmes. In effect, state expenditure should become the most potent redistribution and social upliftment instrument.

Consideration will need to be given to the introduction of new taxes aimed at discouraging "land hoarding". The investigation will include a thorough assessment of the possible impact of such taxes on economic growth and productivity.

There may be room for slightly increasing deficit financing. This could be exploited, but the general policy must be to accept international norms as a guide in determining the limit of the state deficit as a percentage of the gross domestic product.

#### **4.4 ADDRESSING URGENT PRIORITIES**

Poverty, unemployment, access to economic resources, provision of social services and affirmative action to upgrade the economic participation of blacks are by far the most pressing problems that a new government will have to address.

It is accepted that in the long-run the real solutions to all these problems is increased economic growth and development. But it needs to be noted that economic growth as such is a necessary, but not a sufficient, condition for alleviating poverty and improving distribution. Therefore there is a need for special measures aimed at addressing these problems.

##### **4.4.1 POVERTY AND UNEMPLOYMENT**

The increase in the percentage of the economically active population not accommodated in the formal economy indicates increasing poverty. It is reported that whereas in 1970 approximately 60 per cent of the black economically active population was accommodated in the formal economy by 1988 the percentage had dropped to 52. Poverty figures given earlier indicate that at least 62 per cent of the African population lives under poverty conditions. To address this sad situation, action along the lines suggested below is required urgently:

- Immediate re-introduction of a state funded school feeding scheme for the children of the poor.
- Introduction of food stamps for distribution to the old and those who cannot work because of poor health.
- Creation of an environment which allows and encourages ordinary people to engage in activities which address the basic needs of their communities. This includes the preparation and selling of food-stuffs, building of shelter and the provision of other services required at a micro level. The rapid urbanization process triggered by the scrapping of influx control legislation offers opportunities for the people to earn increased incomes through addressing the needs of their communities.
- Provision of appropriate support to individual and community initiatives aimed at alleviating poverty and engaging the people in self-initiated economic activities. This could possibly be channelled through non governmental organisations (NGO's).
- Introduction of a state-funded special employment programme to provide jobs for the poor. The programme should aim at improving the infra-structure in black

## **5. THE FINANCING OF THE SOCIO-ECONOMIC PROGRAMME**

It is quite clear from the preceding discussion that a new government will not be in a position to finance all its urgent social development programmes from own resources. Current revenue may be increased from the present level of 23,1 per cent of GDP (which is in line with international experience) to say 26 per cent according to Prof S Van der Berg of the University of Stellenbosch. The introduction of new taxes may enable the increase from 23,1 per cent to 26 per cent of GDP to be achieved, but this will have a very limited impact.

To finance the social development programmes, the government will have to determine its priorities very carefully and make suitable arrangements to engage the private sector in the financing of capital projects at least. It is suggested that the government resist at all costs the temptation to use loans to finance recurrent expenditure. As a matter of policy, recurrent expenses of the government including those of social programmes managed by the government, will have to be covered by current revenue.

It is recommended that as far as possible, capital projects like the building of schools, hospitals, provision of infrastructure, electricity and water be managed outside the central government structures. Either specialised state corporations will have to be established, or the task of managing these projects be delegated to lower level authorities like provincial administrations. The state would make its contribution directly to these autonomous development corporations and second-tier authorities. This will improve efficiency and also enable these organisations to use financial gearing to expand their resources. They will use their capital base received from central government to borrow from the private sector at commercial interest rates, but the cost-free capital provided by the central government will reduce their average capital cost significantly. In this way capital available for social development projects will be greatly augmented. This can be further extended by obtaining soft loans from overseas countries and development agencies. Arrangements of this kind have great potential, provided the country remains politically stable and business confidence in the government remains strong. Through this kind of financing the resources available for development can be doubled or quadrupled very easily.

Loans from the private sector ought to be repaid from revenues collected from users of services and from future taxation revenue.

Another possibility is to persuade the private sector to make voluntary contributions to a national fund - this ought to be a one-off contribution calculated as a small percentage of accumulated reserves. The fund would then be used to redress the backlog in social services. If the private sector agrees, this would be a wonderful gesture and would contribute in healing the wounds and bringing South Africans closer together. The funds would be managed by a special agency and the private sector would be adequately represented on the board of trustees.

Mention was made earlier on of the possible re-introduction of prescribed assets. This is another avenue. The point is to make pension funds available for development. They can be invested in development projects via government stock, or be used to augment the financial resources of building societies. In either case the objective is to make more capital resources available, not to call on Pension Fund managers to accept lower interest rates.

World Bank funding will also be available. The projects which will require a high level of capital funding include, the land reform programmes, education, housing and the

# CONCLUSION

It is recommended that a macro-economic and development policy framework with the following features be adopted :

- Protection of individual liberties.
- Protection of property rights with appropriate controls to prevent the formation of monopolies.
- Resource allocation and distribution of goods and services by markets.
- Maintenance of a competitive environment through strong anti-monopoly legislation and effective monitoring mechanisms.
- Corrections by the state aimed at improving the distribution of income, promotion of asset ownership and protection of the poor by measures that do not distort the market.
- State directed provision of social services and social upliftment which mobilizes both the public and private sector resources.
- Democratization of the workplace by protecting the bargaining rights of both workers and employers and promoting worker representation at all levels of management including boards of directors.
- Devolution of decision making to the lowest possible level. This encourages self-reliance and creativity as well as improve commitment and the rate of success of development projects.
- Maintenance of fiscal and monetary discipline in order to ensure stability of general prices, the external value of the national currency, interest rates and a low level of unemployment. An independent central bank is crucial in this regard.

The policy framework need not be given a name, but if this has to be done, it is suggested that it be referred to as a **SOCIAL MARKET SYSTEM FOR SOUTH AFRICA**. This is a better description than a "Mixed Economy" because it clearly acknowledges the importance of markets in building an efficient economy. Markets are the feature that makes free enterprise economies superior to centrally planned socialist systems. Therefore, it is this feature that one must highlight in a new economic system for South Africa.

Secondly, it highlights social responsibility; i.e. the responsibility of both the government and the private sector to promote greater equality and the upliftment of the disadvantaged communities through a variety of measures. Economic efficiency and social responsibility are viewed as two sides of the same coin. Both are important and must be pursued in a compatible manner.

The overriding objective of the policy framework is to free the productive and creative capacity of all the people of South Africa and to promote the optimum utilization of the country's resources. This will yield self-sustaining economic growth and development. To achieve this, the ordinary people of this country must be enabled to generate wealth and to enjoy the benefits of their efforts.

The emphasis on the provision of social services, elimination of poverty, improvement in access to resources and economic empowerment of blacks in business and in the work place, are all necessary contributions towards enabling black people, who have been disadvantaged for decades, to be creative and productive. To bring this about, resources have to be redirected to these programmes, and the process of doing this is referred to as redistribution. The real objective is not redistribution, but economic empowerment and creation of an equal opportunity environment. The whole exercise is directed towards this goal.

active population with University degrees and post matric diplomas. (National Manpower Commission Annual Report, 1988).

The most devastating consequence of apartheid is the economic stagnation of the last few years. Over the period 1973-1980 the per capita Gross National Product grew at a disappointing average annual rate of 0,6 per cent and for the period 1980-1985 an average annual decline of 1,3 per cent per capita was experienced. Unemployment has become a major problem. Whereas in 1982, 78 per cent of the labour force had jobs in the formal economy, the percentage declined to 65 in 1987. This means that the ability of the formal economy to absorb labour is declining at a time when the labour supply is increasing by at least 450 000 new entrants a year. The most recent estimate is that more than 40 per cent of the potentially economically active labour force cannot find jobs in the formal economy.

The financial crisis of 1985 was another indication of the poor state of the apartheid economy. International banks demanded the repayment of short term loans owed to them and this could not be met. The result was a debt standstill arrangement of a temporary moratorium on the repayment of short-term foreign debt. At that time the total loan commitments amounted to \$23 billion and this has been reduced to \$20,6 billion by 1989 through a phased repayment of short-term debt under various interim arrangements with the short-term foreign creditors, and through the repayment of all long-term debt on maturity.

Partially related to this balance of payments crisis was the collapse of the exchange rate of the rand, from US \$ 1,28 in 1980 to US \$ 0,46 in 1985.

It is therefore very clear that there is a need for imaginative policies to lead the economy out of the downward trend of the last 15 years. The factors which underlie this trend are clearly mainly structural rather than merely cyclical. Therefore, to turn the economy around demands that the structural imbalances and weaknesses which have accumulated over decades and which have become pervasive during the last decade, are aggressively addressed.

The policy framework presented below is an attempt to address the underlying issues in a systematic manner. The objectives are derived from the material conditions of the disenfranchised majority and key development policy elements are deduced from the experiences of successful developing countries. Finally, the macro-economic and development strategy suggests practical measures to address the real economic issues in the context of policies which have been found to be key determinants of economic success in other countries.



people of European origin. For as long as this does not happen, true development in South Africa will not take place.

### **3.4 USE OF THE MARKET MECHANISM AS PRIMARY INSTRUMENT FOR THE ALLOCATION AND DISTRIBUTION OF GOODS AND RESOURCES**

Markets have proved to be the most efficient mechanism for allocating resources and distributing goods and services. They lead to an efficient distribution and processing of information and this in turn leads to an autonomous balancing of supply and demand. Attempts by bureaucrats to interfere with markets through price fixing leads to serious distortions. In a number of developing countries, the agricultural sector has been on the decline as a result of price fixing by bureaucrats. It should also be noted that centrally planned economies failed mainly because the bureaucrats were not able to collect and process all the information necessary in order to balance supply and demand.

Because of the important role of markets in promoting economic efficiency governments should refrain from interfering with them. In cases of temporary market failure the solution must be aimed at removing those factors which impede market efficiency, or at restoring normality where abnormal events have caused a distortion. Interventions should not be aimed at taking over the allocative function. Where state intervention is necessary in order to protect vulnerable sectors of society, the solution must be targeted at the groups affected and the distortion of the price mechanism must be avoided.

### **3.5 SUPPORT OF THE DEVELOPMENT OF HUMAN RESOURCES**

The technical, managerial and entrepreneurial capability of the people is the most important determinant of economic growth and development. All the successful newly industrialised countries (NICs) have one thing in common:- they place a high priority on education and training. Governments play a leading role in supporting improvements in education. Virtually all of them introduced compulsory free primary education at an early stage.

The other common feature is the emphasis on technical training at all levels. Linked to this is the development of entrepreneurs and emerging businesses. As a consequence of the high standard of education and technical training, these countries find it easy to absorb new technologies.

### **3.6 PROVISION OF SOCIAL SERVICES AND INFRASTRUCTURE**

The availability of health care services, clean water and electricity has a direct bearing on the quality of human resources. Education and training is of little use if the other services are not provided. They do not only ensure hygienic conditions but also support productivity. Good roads, telecommunication and other infrastructure improve accessibility and the mobility of goods and services. Therefore, their provision in all areas which have economic potential is essential to the development process.

### **3.7 PROMOTION OF ENTREPRENEURSHIP**

The lack of an entrepreneurial and managerial tradition in developing countries has been found to be a major constraint to economic participation. Support to emerging businesses, therefore plays a major role in overcoming this problem. Assistance

# **EXECUTIVE SUMMARY**

## **TOWARDS AN ECONOMIC AND DEVELOPMENT POLICY FRAMEWORK FOR A POST-APARTHEID SOUTH AFRICA.**

### **1. INTRODUCTION**

The National African Federated Chamber of Commerce and Industry's (NAFCOC) point of departure is that in order to achieve both economic growth and greater equality, economic policy must focus on both macro-economic and development issues. The policy must aim at stimulating economic growth and efficiency on the one hand, and at increasing the incomes of all South Africans through enhanced economic participation on the other. For historical reasons, the majority of the people whose incomes must be increased through enhanced economic participation are blacks who have been either excluded from the formal economy or employed in low skill, low income activities.

The suggestions concerning a macro-economic and development policy framework are structured as follows:-

- Background statement.
- Proposed economic and development objectives for a post-apartheid South Africa.
- Strategy proposals in key policy areas.
- The need for national economic planning.
- Proposed macro-economic and development strategy.

### **2. BACKGROUND STATEMENT**

Apartheid was invented for the purpose of securing the political and economic power and control of whites. Therefore, to dismantle the system completely, both pillars must be broken. The establishment of a non-racial political democracy will address racial exclusion from political power, but will not necessarily solve the question of economic exclusion and deprivation. To break the second pillar of apartheid, which is black economic deprivation, the focus of the economy needs to be changed from serving the needs of a minority to serving the needs of all South Africans. This is the meaning and objective of economic restructuring envisaged in this proposal.

An analysis of the history of the country clearly shows that the period from 1652 to 1910 was characterised primarily by conflict between whites and indigenous Africans over cattle and land. The various African kingdoms were finally defeated by whites during the second half of the nineteenth century and in the process lost most of their cattle and land.

From 1910 onwards, state legislation and denial of basic freedom to blacks became the major means of securing the economic progress of whites and constraining the economic advancement of blacks. The laws that were enacted imposed restrictions on the following :

access to land and capital, labour mobility, right to choose a job or career, right to belong to a labour union, access to good quality education and training and the right to engage in business activities. Blacks were also either deprived of access to essential services - health care, housing, water, electricity, telecommunications, etc - or, where these services were supplied, they were both inadequate and of a poor quality.

## FOREWORD

One of the most important resolutions to emanate from NAFCOC's Twenty Fifth Annual Conference, held at Sun City in August 1989, was one urging the organisation to organise an Economic Conference, involving all key players in the economy, as a means of enabling it to participate fully in the current debate on the framing of an appropriate future economic policy for South Africa.

In accordance with this resolution, the NAFCOC Council decided to establish an Economic Commission whose research functions and responsibilities centered not only around the organisation of workshops, conferences and the collating of data, but entailed also the commissioning of specific studies into various aspects of the economic and socio-political milieu.

During 1990 the NAFCOC Economic Commission was responsible for organising a successful conference held at the Transkei Wild Coast Sun International Hotel; and also an important workshop on land in Johannesburg towards the end of the year. It is envisaged that during 1991 several workshops will be held at which specific attention shall be given to other sectors of the economy. The main object in arranging such workshops and seminars is to enable NAFCOC in the long run to formulate an appropriate and sound macro-economic policy framework that has the possibility of enjoying the widest public support in the country.

This document is an outline of the macro-economic policy framework, which was discussed and approved by the 6th NAFCOC Summit Conference held at Sibasa in October 1990. The policy framework enunciated in the document does not purport to represent a complete and final version of NAFCOC's economic policy. It does however encompass a substantial number of economic policy options, which NAFCOC fully supports. The document is presented as NAFCOC's contribution to the on-going debate, primarily with the object of provoking further public comment and discussion.

NAFCOC is deeply indebted to the members of the Economic Commission and more particularly to Professor W L Nkuhlu for his enormous personal contribution towards the editing and compilation of this initial NAFCOC macro-economic policy framework.

Members of the NAFCOC Economic Commission are:

Prof W L Nkuhlu (Chairman)  
Mr M Lekota  
Mr A S Nkonyeni  
Mr K J Hlongwane  
Mr V Phaahla (Director, NAFCOC Research Unit)

**DR S M MOTSUENYANE**  
PRESIDENT - NAFCOC

- Improvement of the technical and managerial skills of blacks through improved education at all levels. This should include the introduction of compulsory free primary education as soon as possible, upgrading of teachers, provision of adequate school facilities and major changes to curricula to make them more appropriate to the developments needs of the country.
- Planning and implementation of a land reform programme which will lead to a more equitable distribution of land, with minimal or, preferably, no negative impact on agricultural productivity. This should include a review of agricultural subsidies, measures to discourage the "hoarding" of land, acquisition of land by a state institution for the purpose of redistribution to blacks on the basis of need, and the provision of financial support to individual blacks to acquire land for agricultural or residential purposes.
- Improvements in social services - social pensions, health care services, water, housing, transport, electricity, etc. As far as possible, both public and private sector resources should be mobilised. To ensure that the limited available resources benefit as many people as possible, every attempt be made to adopt appropriate standards and to use affordable technology.
- Introduction of an affirmative employment programme aimed at increasing the number of blacks in managerial and technical positions. The programme would have to include training requirements and targets to be met within an agreed time frame. The parties to the agreement ought to be the government, employers and the workers.
- Promotion of asset ownership. Through special subsidies, the state would have to increase support to first time home owners, especially members of the low income groups. Employee share schemes would have to be supported and measures taken to encourage employers to assist employees to acquire shares. The general public also be encouraged to invest in instruments which enhance capital ownership.
- Democratisation of individual enterprises will be strongly supported through the protection of workers' bargaining rights and introduction of worker representation at management committees, including boards of directors.
- Poverty relief measures would be financially supported by the state. Support would have to include the reintroduction of school feeding schemes for the children of the poor, food stamps for the aged and those who cannot work because of poor health and special employment programmes. The shortage of resources is acknowledged as a constraint, but because of the devastating effect of poverty on people, serious efforts will have to be made to allocate resources to this programme.
- Homelessness will have to be tackled at a national level. The state would adopt a national housing policy and strategy. The strategy would be aimed at mobilising both public and private sector resources for housing. The involvement of the state would be primarily in the provision of infrastructure and capital subsidies to first time home-owners. Special attention would be given to the low income groups.
- Macro economic policies will give a high priority to the establishment of an environment which encourages savings and investment, attracts foreign capital and stimulates exports. Taxes will have to be in line with countries at the same level

## 7. CONCLUSION

The recommended policy framework need not be given a name, but if this is considered to be necessary, it is suggested that it be referred to as a **Social Market System for South Africa**. This is a more appropriate description as it highlights the importance of both markets and investments in social upliftment as necessary elements in building an efficient economy, with a built-in system to promote greater equality. Markets are the feature that makes free enterprise economies superior to centrally planned socialist systems. Therefore, it is this feature that a new economic policy framework for South Africa must highlight. On the other hand, to ensure fairness and real equality of opportunities, deliberate social upliftment initiatives are essential, hence the need to emphasize the social element as well.

as well, because it is these activities which generate additional wealth. Many developing countries have experienced difficulties in the past because they concentrated their attention on social services at the expense of the productive sectors. South Africa must not fall into this trap.

To achieve the best results given the constraints it is suggested that the provision of social services be tackled in the following manner :-

- Steps should be taken to utilise available resources more efficiently. This includes the scrapping of all vestiges of separate facilities for the various racial groups and improvements in the allocation of physical and human resources.
- Equalisation of per person expenditure on all social services ought to be introduced with immediate effect.
- Education and training content and methodology be revised to make it more relevant to the development needs of the country.
- More cost effective technologies should be used to extend services to all sectors of the community. A focus on primary health services, for instance directed at rural communities, would greatly improve the health of the nation. Water, too, can be made available to all sectors of the country if appropriate technology is adopted.
- Priority needs to be given to the training of teachers and the upgrading of teachers at all levels.
- Compulsory free primary education should be introduced in areas with adequate facilities and steps taken to provide facilities to all areas to enable compulsory free primary education to be introduced throughout the country within five years.
- Steps be taken to upgrade secondary schools by providing adequate facilities, laboratories and books and moving in the direction of compulsory free secondary education at a later stage.
- A National Education Loan Scheme ought to be introduced to give assistance to university and technikon students who cannot afford to pay fees. In addition to this, state subsidisation of universities and technikons must be improved. It is accepted that a higher priority must be given to primary and secondary education but university students cannot be expected to carry the full cost of their education. The loan scheme must cover the shortfall only.
- Special attention ought to be given to training in critical areas like computer technology, engineering, management and economics. Black students should be selected and financially supported in these areas in order to ensure that the dependence of the black community on whites in these key areas is reduced.
- Arrangements be made to supplement state funding of capital projects in education, health and water provision with funds from the private sector.
- National medical aid scheme, national unemployment insurance scheme and a national pension fund scheme should be established as soon as possible. Membership of all schemes should be made compulsory to people in employment. In this way everyone would contribute towards his/her pension and medical expenses.

position to obtain finance from the financial institutions. In order to solve the problem of homelessness it is suggested that in addition to addressing poverty and unemployment, special programmes be initiated to address the problems directly. The following initiatives are suggested :

- The state must recognize the housing shortage as a national concern. Arising from this there must be a clear national housing policy aimed at mobilising both the public and the private sectors to tackle the problem.
- The state must play a major role in providing infrastructure for housing. Public and private sector funds must be mobilised for this purpose. Pension funds are a case in point. The government should re-introduce prescribed assets. Pension funds ought to be required by law to invest a certain percentage of their funds in government stocks, and the proceeds should be earmarked for the provision of infrastructure for housing.
- Individuals must be encouraged to save for housing. Special tax incentives be provided to promote savings for home ownership.
- Employers and the state should subsidise interest on housing loans for the low income category. Again, incentives need to be given to the private sector to encourage it to assist the low income category.
- A different package has to be provided for the poor and those working in the informal sector. A higher capital subsidy would be more appropriate and in addition to this, subsidised loans managed through a specially created institution need to become available.
- A national electrification programme should be launched. At present 66 per cent of the country's population have no access to electricity, even though it has been shown that ESKOM has the capacity to initiate a large electrification programme. Electricity would contribute very significantly in lowering the cost of fuel to the poor and in improving the quality of life.

#### **4.4.2.3 TACKLING THE BACKLOG IN SOCIAL SERVICES - EDUCATION, HEALTH CARE SERVICES, WATER AND SOCIAL SECURITY.**

The provision of education, health care services and water has a direct contribution in improving the productivity and creativity of people. Progressive governments take the initiative in ensuring the provision of these services. The rationale is the positive impact they have in enhancing the quality of life and society in general.

A democratic government, therefore will be compelled to address the backlog in the provision of these services to blacks. The dilemma will be the financial constraints under which it will operate. Current expenditure on social services compares very well with international norms. This means that a new government will not be in a position to increase significantly its expenditure on social services as a percentage of the Gross Domestic Product (GDP). A slight increase will be possible from savings on general administration and from new taxes. Apart from this there is very little room for increasing expenditure on social services as a percentage of GDP.

This highlights something that the people of South Africa must be aware of all the time. The most effective means of generating revenue for social services is through higher economic growth.

The key message is that the country must not turn its attention completely to the provision of social services. There is a need to increase investment in economic activities

- tion (government funding of public housing and obligatory health insurance)
- Strict independence of the Central Bank and a strong anti-inflation policy position.

The important point in this system is that the role of markets in promoting economic efficiency is highly regarded. The State accepts that in pursuing social development objectives it must endeavour to avoid policies and measures which distort markets. Because of the success of the social market system in reducing poverty and inequality whilst at the same time ensuring economic growth, it is strongly recommended that in a new economic policy framework for a post-apartheid South Africa the need to uphold economic efficiency by refraining from interfering with markets be given a high priority.

The policy of the central government must be to leave the determination of key prices - wages, interest rates, foreign exchange rate value of the currency and the general price level to market forces ; to intervene only in exceptional cases when market failure or other structural factors impede market efficiency. The distortion of prices by governments is one of the main reasons for the economic collapse of many economies, especially developing economies. The temptation to pursue social objectives through price fixing or other forms of market distortion must be avoided.

The main role of government must be that of a facilitator, through the provision of social services and infrastructure - education training, health care services, water, electricity, housing, roads, etc - and the establishment and maintenance of a social, economic and political environment that is conducive to individual initiative and creativity. In the case of South Africa, the government will have to play a significant role in enabling the disadvantaged community to gain access to economic resources, - land and capital - and to attain meaningful economic participation.

In conclusion it is strongly suggested that the name given to the policy framework discussed above must reflect the central role of markets as well as the social responsibility of government and the private sector.



required is in respect of capital, training and advisory services, both to emerging businesses and to farmers. Success in this area has two major advantages:

- Economic participation is extended to disadvantaged groups, who may not have access to bank credit.
- The high employment potential of small businesses. It has been established that in all newly industrialised countries small businesses play a very significant role.

### **3.8 DEVOLUTION OF RESPONSIBILITY FOR THE PLANNING AND EXECUTION OF DEVELOPMENTS**

Community involvement and participation in the planning and execution of development must be nurtured. As far as possible government involvement must be aimed at giving support to grassroot initiatives. This will ensure a better articulation of the needs and aspirations of communities as well as their commitment to self-development. Non-governmental organisations must also be allowed to operate with no interference from government. They play a major role in stimulating self-reliance and creativity at the grassroot level. Initiatives by groups of individuals and/or communities to mobilise their own resources for economic projects must be facilitated through removal of legal constraints and unequivocal approval of such initiatives at the highest political level.

### **3.9 BUILDING MUTUAL TRUST BETWEEN MANAGEMENT AND LABOUR**

Good relations between management and labour are absolutely essential. They must be based on assumptions and values that are shared by both management and labour. In a situation where labour feels alienated, it is difficult to increase productivity. High productivity on a sustainable basis is only possible where mutual trust has been established. To achieve this the values and objectives of management and workers must be compatible. Involvement of workers in the decision making process through democratic structures facilitates the process, but it is wrong to assume that the Western model of handling labour relations is the most suitable for South Africa. There is a need for each country to develop its own management/labour model in the light of its own historical experiences.

### **3.10 PROMOTION OF GREATER EQUALITY**

Land reform programmes, state funding of education, provision of social services, poverty relief, subsidisation of emerging businesses and first-time home owners, support of employee share ownership schemes, redistributive taxation policies and other instruments of social development, all serve to advance greater equality. The choice of an appropriate combination of policies to achieve greater equality is determined by patterns of ownership and control in each country.

### **3.11 FORMULATION OF RATIONAL DEVELOPMENT STRATEGIES.**

Central planning has been discredited, and this must be accepted as a fact. But it is wrong to conclude that there is no need for planning whatsoever. Baum and Tolbert (1985) reporting on World Bank experience over 40 years have the following to say on the matter : "The best economic performance has come neither from countries with comprehensive central planning .....nor in countries where both the planning effort and economic management were weak ..... Instead, it has come in countries that chose to concentrate their efforts on devising a framework of price and other incentives to guide both public and private activity and on designing an appropriate public investment pro-

both land and capital and also benefited from various subsidy schemes provided by the government. Senior positions in the public service became the monopoly of whites, especially Afrikaners.

The results of these policies and practices on both the economy and on the economic contribution of blacks were disastrous - the creativity and entrepreneurship of the black people was destroyed, black poverty increased very rapidly, economic inequalities between white and black people escalated, the quality of life for blacks deteriorated, the shortage of skilled manpower in the economy at large became critical and, finally, the economy stagnated. It is reported that in 1980, the proportion of the total population with incomes below subsistence level was estimated at 50 per cent and for the Africans throughout the country the proportion was estimated to be 60,5 per cent; for those living in the "reserves", no less than 81 per cent of the households were in dire poverty (Wilson & Ramphela, 1989). The main cause of the exceptionally high level of poverty in rural areas is the fact that the movement of the African people to urban areas was artificially restricted. The situation was further compounded by failure to support small farmers and to provide infrastructure and social services in rural areas.

Gross racial inequality in incomes became the most glaring evidence of economic injustice. Wilson & Ramphela, (1989) report that in 1970 the richest 20 per cent of the population in South Africa owned 75 per cent of the wealth, compared with 62 per cent in Brazil and 39 per cent in the United States of America. The 1988/89 Race Relations Survey Report reveals that according to research by Prof S J Terreblanche, the total personal income distribution by population in 1987 was - Africans 27 per cent, Asian 3,5 per cent, Coloured 7,5 per cent, Whites 62 per cent and the population distribution was - Africans 74 per cent, Asian 3 per cent, Coloured 9 per cent and Whites 14 per cent.

Per capita income per annum by population group in 1987 is estimated by Prof S J Terreblanche to have been African R1246, Asian R4560, Coloured R3000 and White R14880 - giving an average of R3433. Prohibitions on blacks from participating in labour unions contributed very significantly in increasing income disparity between whites and other groups.

Another significant feature of the South African economy, is strong regional disparities in economic activity. The 1986 Annual Report of the Development Bank of Southern Africa shows that the "homelands" which account for 42 per cent of the total population generate less than 5 per cent of the Gross Domestic Product. This explains the high level of poverty in rural areas.

Behind all these inequalities is unequal access to land and financial assets. Until now (1990) whites have had unrestricted access to 87 per cent of the land, and control a disproportionately high percentage of the country's financial assets.

Underprovision of school facilities and the poor quality of education available to blacks is another unfortunate consequence of the misguided policies of the past. In addition to deficiencies in the education field there are serious shortcomings in the provision of health care services, water, electricity, housing, and basic infrastructure to blacks and to areas reserved for blacks by successive minority governments. These deficiencies constrain the economic productivity and participation of blacks.

What has even more direct economic implications is the low level of technical and managerial skills on the part of black people. In 1985, 69 per cent of the African labour force was composed of people who had not completed standard VI, only 22,5 per cent of the professional, technical and managerial positions were held by Africans, and Africans accounted for only 11,5 per cent of the total number of the economically

of development and precautions will have to be taken to ensure that guidelines for international investors are not too onerous compared to countries competing for the same investors.

- Redirection of government expenditure from defense and apartheid structures will become the main instrument of redistribution and the state ought to be able to give a high priority to social services without increasing the government financing deficit to damaging levels.
- Legislation would have to be adopted to encourage pension fund managers to channel more resources towards social development, without significantly harming long-term returns on pension savings.
- Existing national economic and development institutions will have to be restructured or replaced by new non-racial organisations. Each institution would have to be mandated to pursue economic and social objectives in a specific field, and be afforded maximum operational autonomy from government to pursue its objectives in an efficient manner. Chief executives and directors ought to be appointed on the basis of relevant experience, competence and commitment to the upliftment of all South Africans. Present institutions which fall in this category include the Reserve Bank, the Development Bank of Southern Africa, the Industrial Development Corporation, Eskom, Transnet and others. Development Corporations established to serve homelands or interests of any other racial group should be replaced with subsidiaries of national corporations or regional non-racial institutions.
- Precautions will have to be taken to protect the economically vulnerable whenever drastic adjustments have to be made to correct the economy. A good example is restrictions on money supply, which result in exceptionally high interest rates when the Reserve Bank is attempting to bring down the rate of inflation. In such a situation, the economically vulnerable sectors should be given special assistance through measures like additional subsidies of interest on housing and business loans and the very poor should be given food stamps.

## **6. THE NEED FOR A COHERENT DEVELOPMENT PLAN**

To tackle the task of restructuring the economy in a coherent manner, there is a need for a national development plan. The various priorities which have been determined need to be weighed against each other in a coherent manner, and policies for pursuing various objectives need to be examined for consistency. Goals to be achieved at various intervals ought to be clearly stated, required resources quantified and sources determined. Coherent development plans have to be prepared for each sector and the institutions required to plan and manage development programmes must be determined.

A long term budget (five year budget) is an important element of such a plan. The preparation of a long-term development budget will force the government to appreciate the financial constraints and as consequence the need to tackle only what is affordable.

- Corrective actions by the state aimed at improving the distribution of income, promotion of asset ownership and protection of the poor by measures that do not distort the market.
- State initiated and co-ordinated provision of social services and social upliftment policies funded with resources mobilised in the public as well as the private sector.
- Democratisation of the workplace by protecting the bargaining rights of both workers and employers and promoting workers representation at all levels of management including boards of directors.
- Devolution of decision making to the lowest possible level. This encourages self-reliance and creativity as well as improve commitment and the rate of success of development project.
- Maintenance of fiscal and monetary discipline in order to ensure stability of the general price levels, the external value of the national currency, interest rates and a low level of unemployment. An independent Central Bank is crucial in this regard.

The suggested policies address economic growth, efficiency and stability, as well as the broadening of economic participation with a view to achieving a greater level of equality. The main thrust is the stimulation of individual initiative, economic efficiency and enabling all sectors of the community to enjoy higher incomes through enhanced economic participation.

The key factor in facilitating higher economic efficiency is the market. Experience in many countries has demonstrated very clearly that the feature which makes free enterprise economies superior to centrally planned socialist system, is the acceptance of the market mechanism as an allocator of resources. For this reason it is strongly recommended that the central government must leave the determination of key prices - wages, interest rates, exchange rate value of the currency and the general price level to market forces. It ought to intervene only in exceptional cases when market failure, temporary abnormal events or structural factors impede market efficiency.

The major development role of the government must be that of a facilitator, by ensuring a stable socio-economic environment, directing the provision of social services and guaranteeing equitable access to economic resources. In the case of South Africa, the government will have to play a major role in the provision of social services and in giving special support to blacks to enable them to improve both ownership and control of economic assets.

The practical measures to pursue the objectives will be spelt out in the macro-economic and development strategy.

## **5. STRATEGY PROPOSALS IN KEY POLICY AREAS**

In a strategy document like this, only key issues can be addressed and the elaboration of policy details has to be left to future policy planning sessions and negotiation between policy makers. The following is a brief summary of some specific strategies considered to be appropriate to address the underlying issues and pursue policy objectives outlined earlier:

- Removal of all impediments to individual initiative and creativity, especially factors which inhibit economic activities at grassroots level.
- Promotion of entrepreneurship and emerging businesses at all levels. This must include informal sector activities, as well as initiatives by blacks to acquire major businesses in the formal economy. Support should include access to capital, and the provision of training and advisory services.

# **TOWARDS AN ECONOMIC AND DEVELOPMENT FRAMEWORK FOR A POST-APARTHEID SOUTH AFRICA**

## **1. INTRODUCTION**

In tackling the difficult task of formulating an economic policy framework to guide the process of meeting the economic aspirations of all South Africans when apartheid has been dismantled, there is a need to commence with a short historical account of economic developments until the beginning of the 1980's. The purpose of the exercise is to provide the background against which the process of policy formulation can be evaluated.

The logical starting point in tracing the economic history of modern South Africa is the arrival of the first white settlers in 1652. This marked the beginning of economic interaction and competition between the indigenous African people and the newly arrived white settlers. Within a short time conflict between the indigenous people and the white settlers over land and cattle became frequent occurrences. Davenport, (1977) reports that the first conflict between the white settlers and the indigenous Khoi khoi over livestock and property took place in 1659, and in 1673 the Dutch East India Company launched its first military campaign against Chief Gonnema of the Khoi khoi. Wars over land and cattle carried on until the various African kingdoms were completely vanquished and deprived of most of their economic wealth. First it was the Khoi khoi and the San in the Western Cape, and later on the Xhosa, Zulu, Sotho, Pedi and other African kingdoms in the Eastern Cape, Natal, Orange Free State and the Transvaal. The process was completed with the defeat of the Sotho under King Moshoeshoe in 1866, the Xhosa under King Sandile and Sarhili in 1877, the Zulus under King Cetshwayo in July 1879 and the Pedi under King Sekhukhune in September 1879.

The formation of the Union of South Africa in 1910 ushered in a new process of economic emasculation. Legislation became the main instrument for depriving blacks of the means and opportunities to achieve economic advancement. They were deprived of land through the Land Acts of 1913 and 1936, as well as many other apartheid laws like the Group Areas Act of 1950. The "civilized labour policies" and the "Colour Bar" Act of 1926 (Mines and Works Amendment Act) introduced by the Hertzog government were clearly aimed at advancing the economic interests of whites at the expense of blacks. Many other laws directed at retarding the economic advancement of blacks were enacted by successive governments from 1910 to 1982. These laws imposed restrictions applicable to blacks on ,inter alia, the following :

- Access to land and capital, labour mobility, right to choose a job or career, right to belong to a labour union, access to good quality education and training and the right to engage in business activities.
- The provision of infrastructure to black areas was given a low priority whilst white areas were continuously upgraded. Good schools and housing were provided to whites with state assistance and very little was done for blacks. Technical training and University education were developed very rapidly for whites, while black access to tertiary education remained extremely restricted.
- In the work place whites received preferential treatment. The racial prejudice promoted by successive governments assured them supervisory positions over blacks and rapid promotion to positions of power and control. They had preferential access to

gramme. These countries do not necessarily do less planning, but rather planning of a different kind".

In all successful developing countries development is based on systematic analysis of the country's needs, objectives and potential. The best policies for promoting economic growth and development are identified through systematic analysis and a National Development Plan is prepared to guide the development process.

### **3.12 ADOPTION OF EXPORT-ORIENTATED POLICIES.**

Experience shows that import substitution based industrialisation strategies do not reduce a country's dependence on imports, but reduce the ability to export instead. For this reason, in the long-run, such policies have a negative impact on economic growth. Export orientation, on the other hand, makes a positive contribution to growth, provided the country does have the capacity to provide high value added goods. To maximise benefits from international trade, developing countries have to concentrate on expanding their technological capacity. This will enable them to benefit from minerals and to manufacture high-technology goods.

### **3.13 MAINTENANCE OF ECONOMIC DISCIPLINE AND STABILITY**

Every government has a responsibility to commit itself and to do everything possible to keep inflation low, the foreign exchange value of the currency and interest rates stable and to strive for a low level of unemployment. Successful countries place a high premium on fiscal and monetary discipline to achieve this.

The suggested policies encompass both the macro-economic and development issues. They address the issues of economic growth, efficiency and stability, the broadening of economic participation, as well as the removal of factors which inhibit the development of less developed regions.

Because of the focus on both economic efficiency and the broadening of economic participation through initiatives which involve the private sector as well as the public sector, the policy framework cannot be categorised as advocating either the classical free market system or a socialistic system. But this does not mean that there is no common thread running through the set of recommended policies, a scrutiny of the package reveals that it strongly supports individual initiative, markets and the enabling of all sectors of the community to increase their incomes by engaging in meaningful economic activities. It is strongly advocated that the government must not promote dependency; instead it ought to support the people to be self-reliant by facilitating access to resources, social services and know-how.

The economic system that is closest to what is being advocated is the social market system of West Germany. The key features of a social market as it has evolved in West Germany are the following :-

- The sanctity of private property.
- Resource allocation and distribution of goods and services by markets.
- Maintenance of a competitive environment by means of strong anti-monopoly legislation and an effective monitoring mechanism.
- Protection of the right of workers to organise themselves into labour unions and worker representation at all levels of management including representation on the boards of directors of corporations.
- Corrections by the state aimed at improving the distribution of income and protecting the poor. This is achieved mainly through the promotion of asset formation among the low-income groups, direct transfer payments (e.g. child allowances and subsidisation of rental payments) and other direct state interven-

## **4. A MACRO-ECONOMIC AND DEVELOPMENT STRATEGY**

### **4.1 INTRODUCTION**

Traditionally macro-economic policy is concerned with the correction of short-term economic changes. The objective being mainly the reduction of the impact of fluctuations arising from internal and external shocks. The means for pursuing macro-economic policy objectives are fiscal and monetary measures. Fiscal measures include taxation, state expenditure and the financing of deficits caused by disparity between revenue and expenditure. Monetary instruments include the regulation of the money supply, interest rate levels and the external value of the national currency.

Macro-economic policy in the traditional sense remains important, but of even greater importance in the case of South Africa is to combine macro-economic policy with development policy to correct the structural imbalances and distortions caused by many years of apartheid policies. The aim must be to change the focus of the economy from serving the interests of a minority to serving the interests of all South Africans. Economic efficiency and the upliftment of all South Africans must guide strategy formulation.

### **4.2 THE NATIONAL DEVELOPMENT PLAN**

To guide the medium to long-term development process it is absolutely necessary that a national development plan/strategy be prepared. The plan must contain at least the following:

- A review of the current state of the economy,
- A statement of national objectives and key macro-economic and development policies,
- A definition of goals to be achieved during the period covered by the plan,
- Fiscal and monetary plans,
- Sectoral development plans and arrangements for the financing of major development projects.

Information concerning the current state of the economy is readily available and is regularly updated. National macro-economic and development objectives and policies have already been presented. The other matters require further research. What follows is a brief analysis of some of the key issues that need to be addressed in order to place the South African economy on a path to long-term self-sustaining growth and development.

### **4.3 MACRO-ECONOMIC ISSUES**

The starting point in restructuring the economy is to remove all apartheid-linked measures and to replace them with instruments directed at enhancing economic growth and development. Savings and investment will have to be stimulated through appropriate monetary and fiscal measures - economic stability promoted by means of a "contract" between labour, employers and the government on wage increases, productivity and peace at the work place.

To attract foreign investment and to boost business confidence, the government will have to maintain corporate and individual taxation at levels which compare favourably with successful developing countries. To enable industry to replace obsolete machinery, exports will have to be promoted very vigorously, and foreign capital attracted to return.

taken into account and the level of taxation be such that only unproductive owners would feel the burden.

- All land owned by the state must be made available for black housing, agriculture and recreation. The process of identifying such land must start now and steps be taken to transfer ownership to a common authority like a Land Development Trust.
- Special measures must be introduced immediately to prevent land speculation in anticipation of increased purchases by the state. For instance, consideration must be given to the introduction of a special tax on land transactions.
- An institution like a Land Development Trust must be established and be used to mobilise funds locally and internationally for the purpose of carrying out the land reform programme. Land acquisition and distribution must be systematically planned and managed.
- Unused and underutilised land owned by individuals and private sector companies must be identified and acquired by the Land Development Trust. The Government must not blindly rescue insolvent farmers. It must be stressed that the acquisition of land and its redistribution must be programmed with great care.
- Land purchased for urbanisation be transferred to a proper authority for the development of infrastructure. Once the infrastructure has been provided, plots be sold to members of disadvantaged communities. Assistance ought to be given to first time home owners in the form of a capital subsidy.
- Farming land should be made available on the basis of need and interest in agriculture. Available land ought to be divided into small farms in order to benefit as many people as possible. Experience has shown that small farms can be more profitable than big farms. The actual size of a small farm be determined on the basis of intended use and the potential of the region. New small farmers be assisted by agricultural development agencies with subsidised loans to purchase their farms, and with training and advisory services to improve productivity.
- The agricultural development agencies ought to be equipped to serve mainly the needs of small farmers. Assistance needs to be given to individual farmers, co-operatives and to companies. The choice of whether to operate on an individual basis or as co-operatives must be left to the people.
- The state must give special attention to the provision of essential infrastructure - roads, electricity, telecommunications, etcetera - to farming areas.

#### **4.4.2.2 ADDRESSING HOMELESSNESS**

In addition to poverty and unemployment, homelessness is another challenge that a democratic government will have to address. The shortage of houses in the country is exceptionally high. The squatter camps that are mushrooming all over are an indication of the acute shortage of shelter in the country. The Urban Foundation estimates the shortage at between 850 000 and 1,2 million units. Members of the black community believe that the shortage is much higher.

Of course what lies behind homelessness is poverty and unemployment. Ultimately the only way to solve homelessness is to find a solution to poverty and unemployment. People have no homes because they have no incomes. Therefore they are not in a



- The cost of providing water, health care facilities and electricity must be recovered from users. Those who cannot afford be targeted for special assistance.

#### **4.4.2.4 BLACK ECONOMIC EMPOWERMENT IN BUSINESS AND AT THE WORKPLACE**

The focus in this section is on activities that will enable blacks to be directly engaged in the wealth creation process in a substantive sense. This must be seen as a process and not as something that can be achieved immediately. Conditions have to be established for the process to commence and, once it has started, it must be supported and monitored continuously.

Education, training and the provision of social services are essential components of this process. The idea is to remove constraints that impede productivity and to compensate for the disadvantages of being late comers. The final objective is to achieve an equal opportunity environment in which blacks can stand their ground without being handicapped by many years of apartheid deprivation and exclusion.

##### **a) INCREASING BLACK OWNERSHIP AND CONTROL IN THE FORMAL ECONOMY**

- Blacks have to use their savings to invest in successful companies in the formal economy. The vehicle for this purpose must be Pension Fund Management Companies. These companies should be professionally managed by competent persons. They must be formed to perform the investment function. Investment portfolio management is a proven technique. There is no added risk from this kind of arrangement. What is required is the confidence of blacks in themselves.
- Employee share schemes should also be used to build capital and to increase black interest in the formal economy.
- Arrangements should be made for black companies to take over subsidiaries which have supply contracts with mother companies. The scheme should include loan capital or capital could be obtained from development corporations. Such schemes have great potential. It is reported that in Japan most of the multinationals have similar arrangements with smaller companies.
- Support of emerging businesses through the provision of capital, training and advisory services should receive increased attention. This should also include support to emerging farmers. Existing development institutions should be restructured to make them more effective or if deemed necessary new ones should be formed.
- Existing national economic and development institutions must be restructured or replaced by new non-racial organizations. Each institution should be mandated to pursue economic and social objectives in a specific field and be afforded maximum operational autonomy from government to pursue its objectives in an efficient manner. Chief executives and directors must be appointed on the basis of relevant experience, competence and commitment to the social upliftment of all South Africans. Present institutions that fall in this category include the Reserve Bank, Development Bank of Southern Africa, Industrial Development Corporation and others. Development Corporations established to serve homelands need to be replaced with subsidiaries of the national corporation or regional non-racial institutions.