Section 5. Inequality post-apartheid.

The accommodation between the ANC and business shaped the growth model which is still in place in South Africa and which has been the context in which inequality and poverty have been addressed since 1994. The trade-off of macroeconomic stability and openness for black economic empowerment (BEE) was intended to create an environment to realise mutual gains through rising fixed investment and a sustainable growth improvement. In this section, we examine *how* the growth model and the ‘detached’ redistribution approach it embodies have been reflected and implemented in policy, institutions and ideas. The latter two are especially important for assessing changes in non-economic aspects of inequality.

But the ‘deal’ had two major flaws. First, as discussed in below, there was no ‘feedback’ from distribution (taking the form of BEE) to growth to support the investment process within the growth model.[30] The second flaw was the risk of co-ordination failure in translating macro stability and external openness into fixed investment, since private investment decisions are not a collective process but the actions of unconnected corporations and subject to individual uncertainty.[31] The risk of coordination failure increased when external financial and trade liberalisation introduced volatility and instability into the macroeconomy. This outcome was unanticipated[32] since the destabilising consequences of globalisation became apparent only after the Mexican peso crisis started in late 1994, at which point the South African reforms were already well underway. Prior to that, the international conventional wisdom focussed on the expected positive results (Krugman, 1995). Once introduced, however, the reforms in South Africa were effectively ‘locked in’, at least for the relevant medium-run policy horizon, since stopping or reversing them would have resulted in a massive loss of confidence and increased costs of access to external capital.

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[30] In the Keynesian model, the ‘feedback’ was through rising wages enhancing markets.

[31] That is, investors hold back because they are uncertain about likely strategies of other potential investors as well as government.

[32] At least within the South African debate.

Low investment and external volatility have been the two major factors contributing to the economy's poor growth performance described in Section 2. Even though profitability and productivity in the private sector have improved significantly during the 1990s, private investment has not responded very vigorously, averaging only 11.7% of GDP between 1994 and 2002, compared with 10.5% in 1993. These numbers can be compared with investment rates of more than 16% in 1982 and 12.75% in 1988, in the midst of the foreign debt standstill and forex-constrained growth. In consequence, GDP growth has been very unstable but averaged 2.73% per annum between 1994 and 2002. The South African economy seems to be firmly trapped on a 'low growth' path, the growth rate persistently below 4% per annum. Furthermore, BEE distribution gains have been limited in scope and scale, and also volatile.

(i) Policies

External liberalisation

The start of the transition in 1990 carried with it the promise of re-admission to international financial markets, and planning for external financial liberalisation began very soon, with reform driven in part by private institutions such as the Johannesburg Stock Exchange (JSE). Also in 1990, the state-owned Industrial Development Corporation formulated a tariff reform programme, which became the basis of South Africa's offer to GATT in 1992. In 1993, labour and business joined the GATT negotiation process via the newly-established tripartite National Economic Forum. It was a problem that the transitional situation led to an absence of policy coherence on external liberalisation: debate on different issues was highly fragmented, and not enough attention was paid to issues being discussed in the international arena, such as the pace and sequencing of liberalising reforms, interactions between current account and capital account reform, between policy reform and social safety net issues, and so on. In particular, capital account liberalisation did not support current account liberalisation, since the volatility induced by the former led to real exchange rate shifts which made the adjustment to trade liberalisation more difficult for producers.

Re-entry to international borrowing was facilitated by the signing of an IMF standby credit facility of $750 million by the Transitional Executive Council (the joint ANC-National Party authority which ran the country between December 1993 and April

1994), ostensibly to offset the balance of payments consequences of a drought, but at the same time providing reassurance to potential international investors. By the end of 1994, both Moody's and Standard and Poor's had included South Africa in their ratings and the government had floated a US$750 million international bond issue. Legislation passed in 1994 and 1995 allowed foreign banks to establish branches, deregulated the JSE via a 'Big Bang' allowing foreign security dealers to establish subsidiaries, and abolishing the two-tier exchange rate together with all capital controls on foreign investors, who could now freely move funds in and out. Restrictions on outward investment by domestic investors were relaxed through gradual raising of investments ceilings, though some restrictions still remain today. The removal of the financial rand discount re-established a link between international and domestic interest rates with a country risk wedge between them.

Following liberalisation, foreign entry into both banking and securities trading was rapid, and helped to fuel rapid growth in the financial sector (Table 11), as well as being an important vehicle for capital flow volatility at the macro level. In 1996, the JSE ranked 14th globally by market capitalisation. Trading volumes rose from 2.2 billion shares in 1992 to 5.15 billion in 1995, and liquidity from 5% in 1992 to 27% in 1998. Non-residents accounted for 52% of share transactions by value in 2002. Foreign bank presence also grew rapidly, from 40 representative offices to over 80 banks present in 2000.

Trade liberalisation followed a similar pattern, with a shift from import protection to export promotion in the late 1980s, and the introduction in 1990 of a General Export Incentive Scheme (GEIS), a tax-free cash subsidy to exporters based on domestic value-added, which "was particularly designed to encourage the production and export of processed raw materials, but appears to have overlooked the need to remove constraints on more labour-intensive exports" such as clothing (Jenkins & Siwisa, 1997, p12; see also Levy, 1992, p vii) Generous tax incentives for investment introduced in 1991 ("Section 37E") also focussed on promoting beneficiated exports.

The South African offer proposed to change quantitative restrictions on agricultural and industrial products to tariffs, to lower average tariff levels and increase the number of

duty-free lines. The offer was accepted by other GATT members in December 1993, and South Africa acceded to the WTO in 1995. In September 1994, the ANC government announced tariff reductions in the auto industry even before required by GATT, and in March 1995, scrapped planned adjustment subsidies to the textile sector, while accelerating tariff reductions. The 1996 depreciation of the ZAR led to further acceleration of tariff reductions, announced in GEAR, to take advantage of the implicit protection offered importers by the lower currency.

Trade liberalisation has simplified the tariff structure and lowered protection levels: from 1990 to 1999, the number of tariff lines was reduced from 12500 to 2463 with positive tariffs, the number of bands from 200 to 45, and the (unweighted) mean rate from 27.5% to 16.5%. But the structure of protection remains biased against both upstream development of the machinery and equipment sector, and also against exports, especially after the elimination of GEIS and other export subsidies in 1997 (Lewis, 2001, p43). Sectoral duty drawback programmes replaced GEIS for exporters in two sectors, autos and apparel. Tariff reform was intended in part to reinforce anti-inflation policy through more vigorous product market competition, and the policy thrust was reinforced by scrapping the 22 single-channel marketing boards in agriculture.

The employment impact of trade liberalisation has been the focus of much debate in South Africa, with most studies concluding that employment losses have been associated with technological change (to enhance export competitiveness) rather than trade liberalisation and increased import penetration (Edwards, 1999; ILO, 1999). However, it remains true, as concluded in an analysis done for the World Bank in 1992, that “the industrial policy of the past four decades ….helped create competitive capability in relatively capital-intensive activities, so these activities would disproportionately be the beneficiaries. [of a package of outward-oriented policies such as has been introduced] ….South African manufacturing might be an engine of growth, but not of (direct) employment creation. Such an outcome may be the best than can be achieved” (Levy, 1992, p50).

Macroeconomic policy

Macroeconomic stability is crucial for the impact of economic growth on poverty reduction – excessive volatility in output and employment limits the benefits of economic growth for poor people. This does not imply a persistently tight policy stance, but the judicious use of expansionary macropolicy to support growth when cyclical conditions demand. From 1989, contractionary macroeconomic policy was adopted in South Africa to reduce inflation which had cycled around 15% since 1973, and to stabilize the nominal exchange rate. This would help to lower production costs, increase exports and support capital outflows for debt repayment. The Reserve Bank had a four-to-five year time horizon to break the expectational inertia in the system, and the inflation rate finally dropped to single digits in 1993. The recession was fierce: GDP growth averaged -0.5% per annum between 1990 and 1993, formal sector employment declined each year and real wages rose at only 0.5% per annum until 1994. As noted above, fiscal policy until 1994 was anti-cyclical, not for macroeconomic stability reasons but from political pressures on the Department of Finance to allow spending increases related to the transition – higher public service salaries and massive pension payouts as the NP prepared to exit government, as well as vote-catching expenditure on blacks and rising police spending.

After 1994, macro policy remained contractionary, as the new government sought to gain credibility with lenders. One central outcome of the accommodation between the ANC and big business was continuity in macroeconomic policy management. The SA Reserve Bank had used the German Bundesbank model to argue in the constitutional negotiations for increased central bank independence as the path to lower inflation, ultimately securing 'their' Constitutional clause with ANC support (Gelb, 1998b).[33] The Minister of Finance and the Reserve Bank Governor – appointed in 1993 and 1989 respectively but neither a National Party politician – kept their jobs after 1994, with ANC officials taking over only in 1996 and 1999 respectively. Macroeconomic policy was effectively insulated from the RDP, the Ministry being allowed no influence over monetary policy and very restricted influence over public expenditure. ANC ministers

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[33] President Mandela: "We argued for the [Bank's] independence …to send out a strong signal to the international and local business and financial communities that we are serious about this commitment [to sound economic management]." *Finance Week*, September 30 1993.

publicly (re-) committed to fiscal stringency: expenditure re-prioritisation to advance the RDP's redistributive agenda would be in line with fiscal tightening to lower public debt and the deficit, maintaining targets adopted in 1993 (Waldmeir, 1994).[34] In 1995/6, social spending rose by five percentage points of the total expenditure but the overall deficit was maintained.

The GEAR policy in mid-1996 prioritised reducing the deficit below the 3% 'Maastricht' threshold by 1999, and this particular target was achieved. Indeed, fiscal policy is seen as one of the post-apartheid era's major success. An essential contributing factor to the fiscal approach was gains on the revenue side of the budget, rather than expenditure cuts. Social spending increases produced an increase in government current consumption spending, while interest spending also rose. Public sector investment spending – on economic and social infrastructure and hence important for redistribution - was held back to make room for current social spending increases, remaining well below 5% of GDP in 1992 throughout the 1990s, well below the average 1980s level of 10% of GDP. The improvement in revenue collection has been astonishing, with direct tax collections rising by 2.5 percentage points of GDP between 1995 and 1998. The improvement in tax collection has resulted from a significant increase in the tax base and an improvement in compliance. During the 2001/2 fiscal year, the number of taxpayers grew by 10.6% (510 000 taxpayers) after a similar rate of increase during the previous year (SA Revenue Service, 2003). Tax cuts for the middle classes have been enabled by strong growth in revenue collection, even while redistributive spending has risen. Thus supported, the fiscal deficit has been below 3% of GDP since 1999, was 2.1% in 2001/2 and is expected to be 2.6% in 2003/4. For the 2004/5 fiscal year, the government plans to adopt a more anti-cyclical approach with growth expected to dip to below 2%, increasing its spending by 5.7% in real terms and allowing the deficit to rise above 3% of GDP to 3.2% in the face of recessionary conditions (Manuel, 2003). Over the cycle as a whole, though, the 3% deficit target remains in place.

[34] See also speeches by ANC ministers Naidoo and Erwin in RDP (1995). Note that the RDP itself spelled out a commitment to macroeconomic stability in the final section of its final chapter. This made no reference to capital controls, only to the need to avoid 'undue' BoP difficulties and 'excessive reliance' on foreign financing for non-tradable sector expansion.

Turning to monetary policy, nominal interest rates had dropped steadily from 1990 to 1994 tracking inflation downwards, but then began to rise as foreign lenders re-opened credit lines and imposed a country risk premium pushing up the entire interest rate structure. Generally high nominal rates since 1994 have increased the share of government spending on interest payments quite significantly (Table 10). Since 1993, policy has oscillated between rapid and large interest rate increases in a generally vain effort to stem capital outflows and nominal exchange rate deprecation during the periodic episodes of financial flight (in 1996, 1998 and 2001), and on the other hand slow and cautious interest rate declines to ensure demand expansion did not feed into inflation, when the forex market returned to normality. Since inflation continued to decline, real rates rose steadily from 1993 to 1998, before declining until the rand's sudden and massive depreciation in late 2001 forced nominal rates back up with real rates following.

In 1999, the government adopted an inflation targeting regime for monetary policy, targeting a band of 3-6% by April 2002. Although tariff liberalisation and increased product market competition contributed significantly to keeping inflation below the double-digit threshold through the second half of the 1990s, the inflation target was not met as the ZAR's nominal depreciation of 25% in late 2001 pushed price increases above 10%. Food prices rose by 11.4% in 2001, and the maize price more than doubled. But reflecting the elimination of inflationary expectations, the rise in inflation was merely a temporary blip: by late 2003, the rate was back within the target band.

In the balance of payments, there was a small current account deficit from 1995, though the trade account has been in surplus, reflecting low growth, notwithstanding rising exports, and low imports of investment goods. The factor services deficit rose from 1.9% of GDP in 1995 to 2.6% in 2000, driven by profit and dividend outflows in part due to the relocation to the UK and US of the head offices of several major South African corporations. The official exchange rate policy stance aiming at nominal stability was replaced by a focus on real exchange rate competitiveness in the 1996 GEAR policy, followed in turn by an official stance of non-intervention in 2001. None of these approaches have achieved exchange rate stability in the face of capital flow volatility.

Exchange market interventions in 1998 aimed at stabilising the nominal rate significantly weakened the foreign exchange reserves, creating expectations of depreciation, as indeed occurred in late 2001. The reserves were rebuilt by late 2002, with the help of capital inflows and foreign loans.

Following financial liberalisation, the capital account has been driving the overall balance of payments and exchange rate movements, and indirectly also interest rate changes, affecting real output and employment growth. Large capital inflows in 1995, 1997 and 1999 were respectively followed by much reduced inflows in 1996, 1998 and 2000, the shift in each case associated with bouts of currency depreciation. Since the international financial market crash in April 2001, capital flow volatility appears to have increased, with five abrupt and large reversals from one quarter to the next in the subsequent two years: for example, in Q2:2003, an inflow of 2.4% of GDP followed an outflow of 0.4% of GDP in Q1 (SA Reserve Bank, 2003). The ZAR depreciated in nominal terms by 40% against the USD between 1995 and end-2001, and the trade-weighted effective exchange rate by 39%, though not along stable unilinear paths, followed by appreciation by 33% and 37% respectively to July 2003. Over the same periods, the real effective rate depreciated by about 60% overall, again punctuated by periods of real appreciation, the latest being over 40% from end-2001 to mid-2003.

In sum, throughout the period since 1995 there has been no consistent signal from the exchange rate to producers of tradables, increasing uncertainty in production and investment decisions and encouraging 'waiting'. External volatility has undermined the achievements of the monetary and fiscal authorities in stabilising the fiscal accounts and the inflation rate. Although internal stability has made it possible to finance the redistributive measures introduced via the fiscus, even this success has come at a cost in terms of growth and output expansion, which have contributed to the poor outcomes in the labour market. From the perspective of inequality and poverty reduction, macroeconomic policy has been far from an unqualified success.

Investment

As noted, low investment has been a feature of South Africa's poor growth performance since 1994. While contractionary policies and external volatility have certainly been factors in holding back aggregate demand and hence fixed investment, lack of investor confidence and a poor investment climate have also contributed. Notwithstanding macroeconomic stability, government credibility with investors in the *real* economy has been low, and investors are reluctant to make relatively irreversible commitments to projects with long payback periods. Firm surveys have suggested that low confidence is a significant constraint for investors, and that low confidence is related to socio-political factors, since issues identified by firms as significant constraints to investment include labour regulations, taxes, crime & social policy, uncertainty over economic policy and infrastructure. Indeed, this suggests that the presence of very high inequality may itself be a discouragement, if investors feel that there is a possibility of economic policy shifts (due to political activity by the poor) which could result in far-reaching changes in the income distribution regime (Gelb, 2001).

Government has tried to address these problems in three ways, none very successful. The first has been to try to facilitate collective action by investors. Investment accords, or social contracts have been extensively discussed in the attempt to address this co-ordination failure, and two economic summits have been held, but the 'social partners' (business and labour) have been unable and unwilling to make binding commitments. A lot of effort has been expended on attempts to organise business, by supporting attempts to unify business associations across racial, linguistic, regional and sectoral lines, and by establishing high-level 'presidential working groups' for domestic and foreign corporations. Even more specific industrial policy interventions – the Spatial Development Initiatives (SDIs), corridors focussing government planning and financial resources on targeted sectors and areas – have included a mechanism aimed at co-ordination failures involved extensive dialogue sessions between government and private investors, and, just as important, amongst the latter. The purpose was confidence-building, to enhance the private sector's (collective) trust in government's commitment to its policy stance, and to 'lock in' individual firms' decision to invest by enabling each to obtain information about markets, suppliers, and low cost infrastructure

which would result from all firms investing. Inevitably, this communication process has focussed on large investors and materials processing projects.

A second strategy has been to encourage foreign investment, by liberalising the investment regime (including the removal of capital controls) and establishing investment promotion agencies to actively pursue potential investors. South Africa has signed the TRIMS agreements and over 30 bilateral investment treaties since 1994. However, FDI performance has been disappointing quantitatively. Inflows between 1994 and 2002 averaged $1861 million per annum, equivalent to just over $41 per capita, or 1.4% of per capita income (UNCTAD, 2003). South Africa received just about the average per capita FDI inflow for the developing world as a whole, which was $40.42 or 3.5% of per capita income. Between 1995 and 2002, net inward FDI to South Africa was 1.5% of the total for all developing countries, and 12% of flows to sub-Saharan Africa. These shares are significantly lower than corresponding proportions for portfolio in flows to South Africa.

The third approach has been to provide investment incentives, but a major problem has been inconsistency of both instruments and targets. Schemes like GEIS, 37E, the Tax Holiday Scheme and even the SDIs have come and gone. The incentives in the early 1990s, and the SDIs in the late 1990s, focussed on natural resource-based materials exports and the link between industrialisation and cheap energy, identifying large capital- and energy-intensive, materials processing plants as 'anchor' projects. A Tax Holiday Scheme was introduced via GEAR to provide incentives for employment creation and investment in specific regions, but withdrawn in 1999 due to low take-up rates. Sectoral Sector-specific duty drawback programmes replaced GEIS for exporters, but only in two sectors: autos and apparel.

Distribution

This section focusses on Black Economic Empowerment, the distribution component of the 'growth model', discussing redistribution below. The initial focus of BEE discussion in the early 1990s included both collective and individual approaches, the former aiming to mobilise existing black resources through 'stokvels' (rotating savings and credit associations) and pension funds for investment in existing and new assets, while the

latter focussed on transferring some assets from white business to the very small existing group of established black entrepreneurs. Policy discussion focussed on the promotion of black entrepreneurs via conventional SMME strategies, while black business organisations developed objectives for racial transformation of ownership, such as `3-4-5-6' plan by NAFCOC (National African Chambers of Commerce). This argued for a ten-year time frame within corporations listed on the Johannesburg Stock Exchange should have 30% black directors; 40% black share ownership; 50% black suppliers for production inputs; and 60% black management, which was 4% in 1990.

From 1993, individual companies within big business took the initiative and began to implement market-driven schemes, involving sales of subsidiaries funded by debt which was often provided by the vendor. The shares themselves provided security, and loan repayments were premised on rising dividends and share prices. By 1998, there had been over 230 such deals on the JSE, to a value of over ZAR37 billion, but the market crash that year caused losses for both BEE entrepreneurs and lenders, including financial institutions. Black-controlled companies accounted for about 7% of the JSE's market capitalisation in 1998, but by 2002, the figure had dropped to only 2.2%. The narrow focus of the process is underlined by the estimate that there were 260 'previously disadvantaged individuals' holding 367 directorships in 387 JSE-listed companies in September 2002. Over eighty percent of the directorships were non-executive (Empowerdex, 2003).

Given that the financial model was clearly unsustainable, and that the beneficiaries were a tiny proportion of black people[35] essentially operating investment portfolios rather than exercising operational control over productive assets, growing criticism of BEE led to new interventions. In 1999, Black business associations (with government support) established a non-statutory Black Economic Empowerment Commission which in 2001 recommended a more interventionist government strategy, focussing like NAFCOC upon sectoral targets to be achieved over a ten-year period for ownership, management and

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[35] Though they included some former trade union officials who had established 'union investment companies' using members' pension funds, enriching themselves at the same time as securing some benefits for workers from share ownership.

high-level occupations and government procurement. During 2000, the government published a liquid fuels sector "transformation charter", which inaugurated a new policy approach involving official and voluntary sectoral charters. In 2002, a mining sector charter was formulated by government, its leaked first draft targeting 51% black mining ownership by 2014 from a starting level of 14%, but this was lowered to 26% after the equity market reacted badly and mining shares plummeted. Government's concern in its charters include black management control and skills development as well as ownership, and these are emphasised in the Broad-based Black Economic Empowerment Bill introduced into parliament in 2003. Government also committed to supporting BEE with funding of ZAR10 billion from the 2003 budget, which was committed to 'broad-based' approaches including small and medium firms, rather than big transactions. However, the government employees' pension fund is a major investor in large scale BEE transfers, where private sector funders and corporations transferring equity to BEE owners look to it to help reduce risk.

Ten industry associations in banking and insurance led the formulation of a financial sector charter in 2003, negotiating directly with leaders (employed by their negotiating partners) of the industry's black professional association, with government playing a supportive role. This charter was greeted with acclaim, even by the Communist Party, because it (unusually) includes targets for service provision to 'the unbanked', poor people with little access to financial institutions, estimated to be more than 50% of the total adult population (Finmark Trust, 2003).

As noted in Section 4, BEE reflects a process of transferring *rents* to the black middle classes. The financial model underlying market-driven schemes make the receipt of these rents contingent on share prices rising to enable repayment of the loans provided to fund the deal, and also on growth in profits to provide dividend income. Given low growth in the real economy and especially financial instability, the model was not self-sustaining, and losses occurred. It is evident that a capital reform in a context where existing assets are substantial and concentrated is far more difficult than where capital has not yet accumulated significantly. As one financial engineer put it, "the trick will be finding the R100 billion [to finance BEE to meet the Mining Charter target]. Sustainable

BEE is the goal that nobody has really solved yet. To take from existing shareholders would destroy value for the country as a whole." (cited in Ryan, 2003)[36] But who would bear the cost of a company's transformation, if not existing shareholders? Recent innovations in BEE deals have focussed on efforts to shift the burden away from existing owners of large white businesses. One approach forces the costs onto BEE beneficiaries, by delaying transfer of shares until the price has risen to the point where the transaction becomes viable. If the growth performance of the company (and of the economy) do not warrant it, the deal falls away, or at least the transfer is for a much smaller share of ownership. An alternative argument – the 'Brenthurst Initiative', a proposal of the Oppenheimer family (owners of de Beers) – suggests the burden should be shifted onto society at large through tax incentives to companies transferring equity, which they argued, would encourage firms to both transform racially *and* to invest in new capacity. But no mechanism was proposed to ensure that firms receiving tax benefits did invest, and government rejected the idea. Since the recipients of rents – the BEE beneficiaries of equity transfers – do not control the corporations, performance targets in exchange for government financial assistance for equity transfers are unenforceable.

In sum, existing owners of capital do not want to pay a price for the capital reform at the heart of the 'growth model'. And the expected cost is higher, because the 'growth model' is not self-sustaining: there is no feedback between growth and distribution within the model, in the sense that the rents received by BEE beneficiaries are not re-directed to support expansion of output and profits. The transformation charters set targets for affirmative action in occupational categories, access to services, and allocation of procurement contracts, as well as equity transfers and ownership. But these are targets for the distribution of rents (leading to private returns), not targets for ensuring that rents received contribute to growth and other wider social objectives. Establishing 'reciprocity' *linked to growth* in the context of capital reform has not been possible. In sum, both the growth and distribution aspects of the growth model have failed to deliver successful and sustainable outcomes in their own terms.

[36] Echoing this, the SASOL corporation (established as a state corporation under apartheid to make oil from coal, privatised in 1989 and now a major international presence in energy) recently described BEE as a risk facing South Africa to the Securities and Exchange Commission.

Redistribution

There issue of redistribution can be approached in two ways. The first is to focus on resources made available through the fiscus, that is, on inputs, while the second is to focus on the extent to which inequality and exclusion are addressed, that is, on outputs and outcomes. In terms of the first approach, Section 2 showed that the fiscal expenditure was used with substantial impact as an instrument of redistribution even before 1994, and the post-apartheid era has seen the further expansion of this role. The distribution of spending has remained stable since 1995, with social service spending close to three-fifths of government current non-interest spending, and education accounting for about between 40% and 45% of social service spending (Table 10). Health and welfare each are allocated just over half the share of education. The remainder of social services spending goes to housing, land reform, water and sanitation and related programmes.

The government has been reasonably effective in distributing money to supplement current incomes, or in providing public services which have this impact. Social assistance programmes have wide coverage and play an important role in alleviating poverty especially in the rural areas. The Department of Social Development reported to the Human Rights Commission (a statutory body) that between 2000 and 2002, 91% of eligible pensioners received their pensions, though only 44% of eligible recipients got child grants, and 59% got disability grants (Human Rights Commission, 2003, p 29).[37] In October 2000, the government announced the supply of free basic water of up to 6000 litres per month to those who could not afford to pay for it, roughly equivalent to the requirement of rural households. This was a reversal of the policy introduced in 1994 charging for water to encourage better demand management (Lodge, 2003, p63). By 2002, the water grant was available in 214 of 309 municipalities (69%), containing 57% of the population. This is a reasonable level of delivery in a short time period, especially since the major obstacle to further expansion was the lack of bulk infrastructure. (Human Rights Commission, 2003, p 41)

[37] These numbers are probably an overestimate, or perhaps count those who got any monthly instalment, rather than those who got every instalment. Van der Berg estimates 75-80% coverage (van der Berg & Bredenkamp, 2002).

In contrast to such income-supplementing programmes, the impact of redistributive programmes has been less effective where a service has to be delivered in an ongoing fashion to build assets (such as in education) or an asset has to be transferred (such as housing or land reform). In some of these programmes, lack of funds is the problem, but this is not the case in education where the issue is the quality of service delivery. van der Berg and Burger (2002) argue that a rise in overall spending in education has made it possible for education spending per pupil to be equalised across races in the Western Cape province since 1994. This has resulted in a substantial narrowing of pupil-teacher ratios across races, but outcomes have nonetheless deteriorated: the proportion of students passing the school-leaving matric exam is down from 35% to 30%. There is a strong correlation between school fees and pass rates and between race and pass rates, but the correlation between pupil-teacher ratios and pass rates is close to zero. Hence, they argue, "inequalities in access to education and in educational resources have become less important than inequalities in outcomes….quality of outcomes [matters more than] of input". (2002, p18) They offer no clear explanation for this result, but it is worth noting that *current* spending on education and pupil-teacher ratios do not fully determine input quality: nationally, 40% percent of schools are inadequately supplied with classrooms and the same proportion have inadequate electricity, while 49% are without textbooks (Human Rights Commission, 2003, p33). In other words, there is a significant 'apartheid backlog' which still remains unredressed, and this impacts fundamentally on the quality of service delivery, and in the case of education, on the accumulation of assets in the form of human capital. At the same time, the fact that this backlog has *not* yet been filled is one index of government's redistributive performance in the post-apartheid era. In other words, addressing the unequal legacy of apartheid – and enabling more effective participation in, and higher returns from, factor markets – has been less extensive than would appear from an examination of expenditure only.

The housing programme reflects similar difficulties. Housing was one of the 'flagship' programmes of the RDP with the ANC promising in 1994 to deliver one million houses within five years, that is, by the second democratic election in 1999. The deadline was missed by only one year, and by 2003, 1.48 million houses had been built, an average of 470 per day over the eight years, which Rust calls "a phenomenal achievement" (2003,

p7). Housing expenditure reached 3.4% of the budget in 1996, before dropping to around 2.1% by 2000. Despite this apparent success, Rust (2003) argues, government is criticised for an excessively narrow focus on the quantitative dimension in relation to provision of housing subsidies. Subsidies are seen to be too low (at least in comparison with other developing countries[38]) and housing *quality* undervalued , while the diversity of housing demand is overlooked together with the need to locate housing development in the context of broader processes of community development. These points are strikingly similar to those made about education in the sense that apparently successful current expenditure programmes have not produced the sought-after improvement in *outcomes*, for reasons which may well lie in the inability (or unwillingness) of government to address the wider context of inequality.

Unlike housing, the land reform programme has missed its quantitative targets by a wide margin. The land reform budget was much smaller than that of housing: between 1995 and 2002, expenditure on land reform was only 12% of that on housing (and only 5% of pension expenditure, reflecting the relative priority of asset versus income redistribution) (Deininger & May, 2000). It is therefore not surprising that the initial targets for land redistribution have not been reached: the RDP set a target of 30% of farmland to be redistributed by 1999, but by 2002, only 1% had been transferred to about 87000 households (Aliber & Mokoena, 2003, p331). The land redistribution programme was one of three within the overall approach to land reform, the others being land restitution and tenure reform. Restitution has been concerned with providing compensation (cash or land) to those who were forcibly removed under earlier regimes. The requirements of this process – in particular, documentary proof of ownership – and the need for an entirely new judicial process to be established have resulted in slow delivery and an urban focus – about half the 80 000 claims made by the 1998 cutoff had been settled by 2002, of which 80% were urban, though a few large rural cases meant that the number of households which benefited was close to 90 000, about the same as in the redistribution programme. The third aspect, tenure reform, has the potential to impact on the largest numbers of people over the long run (almost 6 million households), but the framing legislation has been held up by government's concern to balance the interests of

[38] Rust (2003, p10) cites calculations showing that the subsidy in Colombia is 70% higher than in South Africa (in PPP terms) and in Chile 46% higher.

traditional leaders (most of the affected land being in the former 'bantustans') with those of the rural poor.

The land reform programme was linked to housing in the sense that (until a shift of focus in 2000) households received a subsidy within the land redistribution programme of the same size as the housing subsidy. In line with the broader accommodation over property rights and with the Constitution, land redistribution has been based on market transactions ('willing buyer, willing seller'), so that farm purchases (involving large land parcels) required the pooling of subsidies by large numbers of households. But this created difficulties for the post-transfer operation of the farm, and the more successful projects have been those with smaller groups of beneficiaries (Deininger & May, 2000, p16). Farms purchased tended to be run along much the same lines as under their previous owners (that is, capital- rather than labour-intensive, and extensive cultivation or animal husbandry) and subdivision to allow individual household units was unusual (Aliber & Mokoena, 2003, p335). As in the case of housing, the land redistribution programme was also criticised for failing to take account of the wider context of community development, in this case, the need for rural infrastructure and agricultural support services.

In 2000, the new Minister of Agriculture and Land Affairs appointed by President Mbeki shifted the focus of the land redistribution programme from a 'welfarist', poverty reduction focus to productionist, 'emergent farmer' concerns.[39] The grant size was raised significantly, from ZAR16000 per household to ZAR20000 to ZAR100 000 per *adult*, depending on the financial contribution made by the household itself. This raised the average grant size per *household* to around ZAR175 000 (a multiple of about ten times its previous level), reducing the number of beneficiaries of the programme to an estimated 1600 – 2500 households per annum (Aliber & Mokoena, 2003, p336). The goal was revised to the establishment of 70 000 black commercial farmers within 15 years, and the approach involved a higher level of government intervention than before, in that government began to purchase land as a principal, for future sale, and also has

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[39] Both emphases had been included in the 1993 World Bank report on which the original redistribution programme was based (Lodge, 2002, p73).

focussed more on the provision of rural services to new farmers. This approach looks more likely to succeed on its own terms, that is, in transferring land to black commercial farmers, but appears to be the rural equivalent of BEE rather than a redistributive programme which could impact positively on inequality.

In summary, policies for redistribution have not yet been successful in enabling *asset* accumulation by poor people, for all the improvement in racial and distributive equity on the expenditure side of the budget. This is important since as we will see in Section 6 below, the government's approach to inequality has recently begun to emphasise assets rather than incomes.

(ii) Institutions

It is obvious that apartheid institutions established and reinforced inequality. There has been a dramatic shift in the institutional landscape since 1994. But to what extent do post-1994 institutions reflect the 'deal' underlying the growth model, and so create obstacles to future changes in inequality? And to what extent are they likely to contribute to addressing inequality in the future?

The overarching new institution is the Constitution, adopted in interim form in 1993 after more than three years of negotiations and finalised in 1996. Naturally, it rests on formal equality of citizens as its first founding value: "South Africa is one sovereign democratic state founded on the following values: (a) Human dignity, the achievement of equality and the advancement of human rights and freedoms" (South Africa, 1996a, s1). The second chapter of the constitution is a Bill of Rights, including formal political rights of citizens, rights of labour (to join trade unions, to engage in collective bargaining and to strike) and property rights, which allow expropriation "in the public interest" but under tightly prescribed conditions. The focus of the definition of 'the public interest' is land reform and equitable access to natural resources; other forms of property (such as capital assets) are not explicitly discussed (South Africa, 1996a, s25).

The property and related clauses allow the *unequal* treatment of citizens to take account of the historical legacy of apartheid in creating structural economic and social

inequality. The Bill of Rights also spells out a range of socio-economic rights, including rights to "adequate housing…health care services….sufficient food and water, and social security…a basic education …[and] further education" (South Africa, 1996a, s26, 27, 29). On the basis of these elements, legal scholars have argued that South Africa's Constitution reflects "a project of transformative constitutionalism…which engages seriously not only the past that produced it, but also the future that it will partly shape….[which is] committed to transforming South Africa's 'political, and social institutions and power relationships in a democratic, participatory and egalitarian direction'… [by] explicitly reject[ing] the social *and* economic status quo" (De Vos, 2001, p260, citing Klare, 1998). In this view, the Constitution addresses *substantive*, not just formal, equality, and the Constitutional Court is an institution which can advance the realisation of these socio-economic rights over the long run.

A series of actions have been launched in the Constitutional Court aimed at shifting the historical *status quo,* focussing on the rights of groups of people, in particular poor people, to demand that the state address their needs, and specifying the nature and limits of the state's obligation to "respect, protect, promote and fulfil" rights specified in the Bill of Rights (South Africa, 1996a, s7). In the 1998 *Subramoney* case, the issue was the tradeoff between depth and breadth in public service provision: one individual's right to expensive medical treatment versus the right of many people to obtain more basic care for the same aggregate expenditure. In the *Grootboom* case in 2001, a group of poor people argued that they lacked "adequate housing" to which the Bill of Rights entitled them, because apartheid policies had restricted housing provision for Africans in the Western Cape so as to cap the number of Africans in the province, resulting in a seven year waiting list for permanent post-apartheid housing. They demanded that the state provide temporary housing in the interim.

It is argued that the Court's judgements in these cases have reflected the transformative perspective, in that they reaffirmed the state's obligation to address inequality, poverty and historical socio-economic legacies. But it is also recognised that this obligation has limits which bound the individual's rights – not a right to obtain housing, health care or the like on demand, but "a right to demand that the state take action to *begin* to address"

unmet needs. (De Vos, 2001, p271, emphasis added). According to the Constitution, "the state must take reasonable legislative and other measures, *within its available resources*" (South Africa, 1996, s26(2), 27(2), emphasis added). In other words, the state is not enjoined to provide immediately for needs, but to show both that it will take steps to provide for needs and has a plan for doing so, which should, in determining affordability, take account both of poverty and 'ability to pay' as well as government's fiscal resources. This begs the question of assessing affordability, in particular by not incorporating opportunity cost into the assessment (Budlender, 2003).[40]

The Court's approach strives for a balance between imposing policy on government, and demanding the government be accountable for its policies. It attempts to nudge government towards meeting its constitutional obligations with respect to socio-economic rights, but leaves it considerable room for manoeuvre in deciding how and when to do so. Even in the TAC case on mother-to-child transmission of HIV, where the judgement affirmed the courts' right to force government to adjust unconstitutional policies, the state was able to evade it because it did not fit its existing approach to the HIV/Aids issue.

Even though the Constitution's concern with socio-economic rights provides scope for highlighting inequality through legal means, there is reason to be cautious about the potential in this regard, given the broader political realities in the society. South Africa's Constitution established several statutory institutions of 'horizontal accountability', "the controls that state agencies are supposed to exercise over other state agencies…. an expression of the rule of law in one of the areas where it is hardest to implant, ie over state agents, especially high-ranking officials" (O'Donnell, 1994). In addition to the Constitutional Court, these include the Public Protector and several commissions, the Human Rights Commission, the Commission on Gender Equality and others. These institutions followed from the ANC's acceptance of constitutionalism during the transition, limiting majority power by the diffusion of power from the executive to bodies with formal political independence, and with oversight and regulatory powers over government. Their purpose is to raise the costs of arbitrary use of power, reducing the incentive to act

[40] In the Subramoney case, the envelope used was the provincial health budget. Alternatives might have been the full provincial budget or the national health budget.

in that fashion, and for this reason are an essential dimension of the consolidation of democracy.

These institutions have certainly opened up possibilities but their impact in South Africa has so far been limited. Like the Constitutional Court, South Africa's horizontal accountability institutions are newly-established, and their capacity (both human and financial) is consequently more or less limited, given their immaturity as institutions. Like the Court, they often take account in their actions of both the weakness of the South African state, that is the limited capacities of those state institutions accountable to them, as well as of the political context within which the governing party operates. There may also be a 'generational' issue involved here – the horizontal institutions are led by people who were participants in the anti-apartheid struggle together with government leaders, so that accountability may be leavened by their shared history. In other words, the accountability relation may become more effective only once these institutions, and the state bodies accountable to them, are being run by a second generation of leaders who were not involved together in the nationalist movement. Even where there have been attempts to enforce accountability on state actors, as in the ongoing 'arms deal' saga (the weapons purchase of 1999), the process has not been fully transparent and free from political issues, but subject to internal concerns within the governing party and considerations about its cohesion and the related issue (given single party dominance) of overall political stability.

The capacity to realise rights depends in part also on the capacity of state institutions, which is uneven and often limited. As Tom Lodge has pointed out, "many of the rights and entitlements that have been legislated as a result of [the Constitution's] provisions remain more notional than real. For example, [there is] continuing routine use of torture in detention cells and prisons. The inefficiency of the judicial system as well as the expense of using it effectively continues to prompt large numbers of poor people to resort to unofficial and often extremely brutal vigilante justice." (2003, 173)

Other 'horizontal institutions' are also surprisingly weak. The role of the trade union movement and civil society organisations in propelling the country to negotiated

political transition led also to a nascent process of tripartite policy discussion during the transitional period between 1990 and 1994. A first step was the labour-capital alliance in 1989 opposing the Labour Relations Act amendments, which led, as discussed above, to the 'Laboria Minute' in 1990 committing the state to a formal negotiation process with the two interest groups about future labour legislation. This was followed in 1991 by a campaign led by COSATU, the trade union federation, against the introduction of a value-added tax. This campaign included an explicit demand by the union leadership for a 'macroeconomic negotiating forum'. Support for this issue from business led to the formation of a 'National Economic Forum' in 1992. Once the NEF was established, other fora proliferated: by mid-1993, there were fifteen national forums concerned with individual sectors, seven regional forums, five serving metropolitan areas and several dozen at local authority level. Their rapid spread reflected the limited political and administrative capacity of government during the transition period.

The spread of the fora before 1994 created a sense of optimism that tripartism and interest group representation could be institutionalised to enable a voice for labour and the poor in the policy process under a democratic government. A permanent statutory body, the National Economic, Development and Labour Council (NEDLAC), was established in 1995 to succeed the National Economic Forum. NEDLAC was structured around four 'chambers' focussing on trade and industry, labour, macroeconomic policy and 'development' , the last including community organisations, women's and youth organisations and the like. Other statutory bodies such as Housing Boards and a Commission for Higher Education similarly enabled broad 'stakeholder' participation.

The benefit of the forums was in providing 'voice' for these groups, but also in institutionalising a bargaining process over policy, imposing the need for explicit discussion of compromises over the sharing of benefits and costs, and reducing the opportunities for special arrangements and concessions for particular groups. NEDLAC achieved several significant successes, including the negotiation of a new Labour Relations Act in July 1995, and a new competition law in 1997, with both business and labour representatives fully involved in the drafting and debate. These laws the went through the usual processes in the parliament, but were dealt with there in the

knowledge that the key affected interest groups had already indicated their support.

But the macroeconomic arms of government – the Treasury and the Reserve Bank – had always been uncomfortable with the notion of *negotiating* policy, and discussions on macro policy were more in the nature of briefings by government than negotiations (Gelb, 1998b). The GEAR policy document in June 1996 brought this into sharp relief and in the process fatally weakened the tripartite impulse. Contrary to the organisation's tradition of internal discussion, there was only the most cursory consultation within the ANC and its allies in the trade unions and the Communist Party about GEAR, while government officials explicitly expressed its 'non-negotiability' and refused to subject it to NEDLAC negotiating processes. The rationale was insulation and autonomy from popular pressures in order to enhance credibility with investors (Williamson & Haggard, 1994; Rodrik, 1996). But, given the fact that GEAR was labelled as the successor to the RDP as the cornerstone of government policy, the lack of consultation either within the political party structures or within NEDLAC led to heated and bitter public debate over the following several years between the ANC leadership and its allies, raising investor fears about policy reversal, which itself undermined the policy's credibility (Gelb, 1998b).

Though the unions were unhappy with the lack of consultation about GEAR within the ANC's own structures, another outcome has been lower confidence in tripartism amongst both labour and business, since the implication was that NEDLAC processes were not seen by government as necessarily binding upon itself. Although discussions and information-sharing in NEDLAC continues, its role as negotiating forum for policies and legislation appears to have receded since 1999. Government has opted for 'multiple bipartism', establishing a series of 'working groups' in which it engages with different economic interests individually, including labour, big business, black business, agriculture, and international investors. This arrangement is more about canvassing views and testing ideas than formal representation, and does not allow for real negotiation *amongst* interest groups over gains and losses from policies. Nor does it facilitate burden-sharing in response to external shocks, which is critical for a flexible response to minimise the impact of shocks on growth sustainability and inequality (Rodrik, 1999, p12).

A social accord or social contract formalising the obligations of business, labour and government with respect to both growth and stabilisation has frequently been advocated as a mechanism to make burden-sharing possible. In 1996, for example, an accord was advocated both in GEAR itself[41], as well as in the tripartite statutory Labour Market Commission (South Africa, 1996b). As noted earlier, a major concern of policy since 1994 has been to overcome the co-ordination difficulties involved in raising private sector investment so as to increase economic growth. But one index of the declining resonance of tripartism has been the dissipating belief that a formal 'peak association' agreement will succeed in addressing the investment-employment quandary. In 1998 a 'Jobs Summit' was held, and in 2003 a 'Growth and Development Summit', but the joint public announcements of 'success' at the meeting itself has not been matched by implementation and results afterward. Nor have these summits involved explicit commitments and obligations from each participant in relation to incomes or expenditures which could be monitored and adjusted over time.

A contributing factor to the lack of progress on a social contract, and indeed to the limited nature of interest-based horizontal interactions enabling inequality to be addressed more effectively, has been the weakness of the collective organisations of both labour and capital, notwithstanding the importance of these groups in the transitional process. This has made agreements difficult to reach since enforcement was likely to be unfeasible. South African business historically has been organised along ethnic and racial lines, and an important part of the process of BEE has been the slow process of unifying business associations. Various initiatives over the decade have foundered on political infighting, not just along racial or even ethnic lines. At the same time as unity across those lines was sought, white business was becoming increasingly fractured along size and economic interest lines: large corporations in natural resource-based industries and finance had less in common with medium size and small firms in manufacturing and non-tradeable services, in relation to international financial and trade liberalisation.

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[41] Notwithstanding its denigration as neo-liberal.

In 1994, nineteen mostly white associations joined to form Business South Africa as their NEDLAC representative, while retaining their own identities. Eleven black organisations meanwhile formed the Black Business Council, which has no seat in NEDLAC, the 'black business' seat there being held onto by NAFCOC which stayed out of both BSA and BBC. (BEECOM, 2001, p53 ff) An interesting attempt to reshape the social organisation of business across racial lines occurred in 2000, with merger discussions between the SA Chamber of Business (SACOB) and the National African Chamber of Commerce (NAFCOC), both groups oriented to the domestic real economy and opposed to further tightening of anti-inflation policy and external liberalisation, because its impact on growth. These talks failed, but they indicated the emergence of interest alignment in business, across vertical distinctions.

Recently, there has been some progress with the formation of Business Unity SA (BUSA), and Chambers of Commerce and Industry of SA (CHAMSA), associated organisations bringing together BSA and BBC, on one hand, and the various members of those two bodies on the other. This overcomes the problem of different bodies claiming to be the authentic national voice of business, but the ethnic, racial and sectoral divisions remain. Perhaps a more important step towards business unity has been the financial charter process, which involved negotiations by organisations belonging to BSA and BBC respectively. Such 'bottom-up' processes are more likely to produce lasting identification of shared interests and concerns.

The trade unions on the other hand have also become weaker organisationally. At the federation level, membership has increased: COSATU (the ANC-aligned Congress of South African Trade Unions) grew by 36% and NACTU (the more Africanist National Congress of Trade Unions) by 20% between 1994 and 2001.[42] However, individual unions, especially in the industrial sectors, have experienced reduced membership, while public sector unions have become larger and more prominent in the labour movement. Of COSATU's ten affiliates with more than 100 000 members, all five in industrial sectors had membership peaks before 1996 (the metal and textile unions in 1991), while the commercial sector union and the four public sector unions reached their

[42] Calculated from Macun (2000) and Buhlungu (2003).

all-time membership highs between 1999 and 2001. In 2001, the average decline in membership for each for these ten unions relative to their all-time high was about 13%, but the five industrial unions declined by 22% on average (calculated from Buhlungu, 2003, p194). This shift has been important, since it was the industrial unions which took the lead in the labour movement's (and especially COSATU's) contribution to the liberation struggle during the 1980s. In contrast, since 1994, "the most traumatic clashes have been those involving nurses, teachers and municipal workers", public sector workers faced with civil service restructuring and fiscal cuts (Buhlungu, 2003, p198).

Through the 1990s, many members of the industrial unions have become unemployed, while new career opportunities in both public and private sectors opened up after 1994 for many of their leaders and officials in the context of black middle class advancement via BEE and affirmative action policies. As a result most unions have experienced turnover of leadership and full-time officials during the 1990s, with an inevitable drop in organisational performance as inexperienced leaders went through learning processes.

The labour movement has made substantial gains in establishing a more favourable regulatory environment for the labour market. New legislation includes the Labour Relations Act of 1995 (reinforcing unions' organising rights and individual workers' rights in the workplace) and the Basic Conditions of Employment Act (regulating hiring and firing, working hours and other conditions of service). A statutory Commission for Conciliation, Mediation and Arbitration was established in terms of the Labour Relations Act in 1996 to handle workplace grievances. National negotiation forums have been established in most sectors, while discussions of policy and legislation at NEDLAC occupy the attention of union leadership, notwithstanding its declining impact on policy outcomes. All of these have contributed to the need for officials to spend much more of their time managing the regulatory environment, so that the regulatory gains have ironically resulted in increased distance between officials and rank and file membership, and in some instances open division.

As a result of these factors, the labour movement remains strong enough to act in 'defensive mode' but is no longer sufficiently powerful or influential to press home its

demands. Buhlungu's assessment (2003, p196) that "the ANC has changed from treating COSATU as a special ally to treating it as just one among many forces in society" overstates the case. The debate over GEAR has been as much about the unions' political influence on economic policy as about the substantive policy concerns, and ANC leaders have withstood union pressure to extend their influence while never quite being able (or willing) to quell union opposition. Thus COSATU has been able to slow down privatisation of state enterprises but not entirely prevent it.

The decline in the union movement's power has been one factor in a parallel decline in the public impact of civil society, where organisations which emerged during the 1980s have also experienced resource constraints as foreign aid and domestic funding as well as personnel have been sucked up by the transformation of the state. But a revival is now underway, and new issues and new organisational forms are starting to emerge. Addressing poverty has become a prominent issue for these new social movements, with two of the most successful initiatives being the Treatment Action Campaign (TAC) focussing on HIV/Aids, and the basic income grant (BIG) coalition. The trade unions have been an important component in both of these, but have not taken the lead in either.

Weak interest associations and government's 'multiple bipartism' in which it interacts with different interest groups separately have fragmented processes which rely on interest-based voice and made the construction of horizontal alliances much more difficult. This has been reinforced by the power and weight of vertical relationships and interactions, in which the ANC, the governing political party, is especially important and race and nationalism understandably remain prominent as mobilising ideas. South Africa's system is single-party dominant, the ANC having won close to two-thirds of the vote at both national and local elections since 1994, and is unthreatened in terms of the next election in 2004. Government leaders have relied heavily upon loyalty to the ANC and party discipline to secure support for, or at least compliance with, unpopular policies such as GEAR. The organisation has a reputation for highly centralised internal control from its years as an exile organisation, and several commentators argue that these tendencies have grown stronger during the decade in government (Lodge, 2003, p161;

Southall, 2003, p57-8). In part this is seen as a reflection of the much greater presence in influential positions in both party and government, of those leaders who spent the years of struggle in exile, as compared with those who participated in social mobilisation inside South Africa.

Debate does continue within the ANC and its broader alliance (including the trade unions and the Communist Party), and sometimes heated clashes do lead to threats to break up the organisation. But differences over socio-economic interest have been dominated by shared nationalist ideas and, again, a shared history of struggle. The weight of vertical relations is likely to persist until a new generation of political leadership emerges with no claim to having participated in or led the anti-apartheid struggle. The ANC is also much less concerned with ongoing political mobilisation and participation of its mass membership, at least outside of the context of election campaigns. This also makes it more difficult for an explicit pro-poor 'voice' to emerge in the policy process, and for the aggregation of political expression by the poor. Thus far from the political party providing an institutional mechanism for mediating a pro-poor horizontal pact, the opposite is the case, with the party playing an important role in managing conflict by diffusing it. Both the fragmentation of interest-based expressions and the weight of party politics have contributed to 'status quo bias', consolidating the conventional wisdom on issues such as inequality.

The salience of vertical interactions in the arena of voice and expression of interest is complemented by the emerging institutional structure of macroeconomic management. One aspect of the approach in this regard has been to build credibility in relation to investors, particularly internationally-oriented investors (based abroad and domestically), by establishing domestic institutions (such as an independent central bank) seen to be capable of adhering to rules-based approaches such as inflation targeting and fiscal deficit targets. These approaches limit policymakers' discretion without eliminating it entirely, enabling the use of fiscal, monetary and exchange rate policy to manage distributional conflict consequent upon external shocks. In this regard these policies are distinct from those using a fixed exchange rate regime, in which burden-sharing of the consequences of external shocks is predetermined (Gelb, 2001b).

As in other middle-income countries where the state has some capacity to manage distributional conflict (Brazil?), domestic institutions are complemented by efforts to building multiple international economic alliances and agreements, and to change 'the rules of the game' in the international financial and trading systems in favour of developing countries. On one hand, these efforts are intended to reduce investor risk in the domestic economy, by stabilising flows of goods and money and by opening new markets (Gelb, 2001b). South Africa's role as an initiator of the NEPAD process – in some ways the *leitmotif* of the government's international economic policy – reflects this concern to reduce investor risk within South Africa and the rest of the continent (Gelb, 2002b). Entry into multiple trade agreements – with its neighbours in the Southern African Development Community, with the EU, as well as discussions with the Mercosur countries in Latin America, with India, and with the US - also reflect such concerns.

On the other hand, this engagement in the international arena is crucial for middle-income countries to address the impact of globalisation on their domestic economy and polity, because their more developed financial systems and trade structure means they are engaged with globalisation far more deeply than are low-income countries. In this sense, international and domestic economic policy cannot be distinguished. South Africa takes a consistently multilateral approach in international fora, including the three Bretton Woods institutions and the UN. During the post-apartheid period, it has presented itself as a leader of 'the South', promoting the view that substantial reforms are needed to reinforce rules-based regimes in global governance and promote both substantive and procedural equity amongst nations so as to reduce the costs of globalisation to developing economies. The government's stance towards 'the North' has been reformist, that is, located *within* the parameters of the overall global system reflecting the government's self-conceptualisation as a 'bridge' between North and South: the government clearly shares many assumptions with the major powers concerning the need for systemic order and the obligations and responsibilities of national governments within the system. As 'the North' itself has fractured in the past two years around policy differences over many of these issues, including security against 'terrorism' and the distribution of benefits within the international trading system, South Africa has begun to shift away from this reformist approach towards a more

adversarial approach, choosing to increasingly align itself with other 'South' leaders like Brazil and India. But notwithstanding the argument that the stance internationally is oriented towards the global poor, it remains firmly tied to the growth model implemented in South Africa since 1994.

(iii) Ideas

The concern here is the impact of different sets of ideas on shaping the ways in which it is possible to 'think' about addressing inequality.

The first is political reconciliation between the races, promoted most actively by President Mandela, which is seen as having been necessary to reinforce the accommodation reflected in the transition to democracy (Mangcu, 2003), and indeed the economic 'deal' underpinning the growth model. But reconciliation undermines a potential focus on inequality and the need to address it. At the same time, the 'two nations' metaphor, which President Mbeki has used to structure an alternative to reconciliation in terms of race relations (as implied in the introduction) creates different obstacles to addressing inequality. This is because the 'two nations' approach shapes attitudes toward risk, identifying the democratic transition and equality of rights as a cost to be borne, and as a threat from the 'Other' to established lifestyles and access to resources. The response is to withdraw 'behind walls', to protect one's assets. This stance is not restricted to individuals though, but is also adopted by corporations.

Rights discourse also shapes thinking about inequality. In particular, the 'culture' of rights is narrowly restricted in its scope. For many political leaders, social *mores* are concerned with personal dignity rather than welfare and access to resources. The latter, it is argued, rest on personal responsibility, with the right to welfare seen as 'entitlement', rather than as the counterpart of the social democratic view that 'the state had an unconditional obligation to provide security' (Tony Blair, cited in Barry, 2003). This is reflected in the stance of government on HIV/Aids and on welfare policy, as compared with the position on anti-racism and human rights. In rejecting the demand for a Basic Income Grant (BIG), government spokespeople argued that "only the disabled and sick should receive 'hand-outs' and able adults should 'enjoy the opportunity, dignity and

rewards of work'" (cited in Seekings, 2002, p12). In the debate on the child support grant in 2000, one MP argued that 'women should look at developing themselves'. (cited in Hassim, 2003). The Minister of Social Development at the time (Geraldine Fraser-Moleketi) took the same line: "communities had to change the thinking of those who held out their hands for help but kept their sleeves down, a sign that they were not willing to work." (Cape Times, 25/5/99, cited in Hassim, 2003). Moral discourses continue to infect social security provision, with criticisms that the child support grant is responsible for increasing teenage pregnancy (to access the cash), and similarly that unprotected sex continues despite the risks, because the disability grant that positive HIV status makes possible is a way for individuals to address their poverty.

Fourthly, racially unequal status under apartheid restricted access to cultural and social capital. "Understanding durable inequalities …requires knowing who possesses what resources vis-à-vis others and how resources are mobilised. In societies in which group-based social relationships acquire high significance, individuals in privileged groups accumulate more than one type of resource or capital. Elites with access to economic resources can also control cultural capital [such as knowledge and information normally formalised through educational credentials] and social capital (networks that protect group privilege through formal and informal rules of exclusion)" (World Bank, 2003b, p233). New elites in the context of South Africa's transition faced a need to signify their *right* to these forms of social and cultural capital, despite the fact that they had not had access to or control of such capital in their personal pasts. They needed to signal their membership of the elite to others within it, to be able to gain the advantages conferred by membership. Given the accommodation with business, and the continuities this implied in terms of different types of capital, the 'obvious' mechanism was through conspicuous consumption. This has reinforced consumerism in the society, and the high visibility of inequality, but at the same time also reinforces social exclusion.

Finally, it is important to distinguish between private inequality and public power. Inequality in the 'private sphere', for example in households, cannot be addressed solely through public policy and institutional development, since these formal and public mechanisms do not reach into the private sphere. What is needed is deeper

transformation towards equality in values and norms. The HIV/Aids crisis illustrates this, since the state can provide ARVs and other drugs, as well as education, but women remain more vulnerable to the pandemic due to their lack of control over their bodies and the forms in which they engage in sexual activity (voluntary and involuntary). A similar problem is faced by the implementation of the Maintenance Act which aims to force fathers who leave the home to support their children financially, but the state has found that it is very difficult to enforce court orders requiring payments (Albertyn & Hassim, 2003). The last point underlines the difficulties faced from entrenched ideas and conventional wisdom in order to intervene and address inequality, to which I turn next.