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The Post-Apartheid Distributional Regime

Abstract

Public policies affect income inequality both directly and indirectly. The direct effects are most obvious. Redistribution through the budget, with tax revenues spent on public welfare schemes and other social policies (especially education), might serve to mitigate inequality. But public policies also affect inequality through shaping the growth path of the economy and the labour market. Together, these policies constitute what we call a 'distributional regime'. In South Africa, the Post-Apartheid Distributional Regime includes some very pro-poor features. Welfare expenditure is very redistributive, especially through the old-age pension, and education and other social spending is pro-poor in that a very high proportion is spent on the poor. But the Post-Apartheid Distributional Regime includes other features, inherited from the apartheid period, that contribute to high or even rising inequality. Policies affecting the growth path and the labour market contribute to rising unemployment, which underpins poverty and inequality. Deracialisation, including 'black economic empowerment' and affirmative action, are largely irrelevant to overall levels of inequality. There are weak pressures for more uniformly pro-poor policy because poor voters are deeply loyal to the governing African National Congress and anti-poor policies are often opaque.

In the decade following the end of apartheid, there has been little change in the overall level of income inequality; if anything, inequality has increased, after several decades of stability. At the same time, the general trends in income inequality that characterised the late apartheid period have continued. Inter-racial income inequality has continued to decline whilst intra-racial inequality has continued to grow. Expanding opportunities in high-paying occupations meant that African people comprise a rising proportion of the top or richest income deciles. At the same time, growing unemployment underpins persistent and perhaps deepening poverty, especially in rural areas. Households lacking social and human capital are effectively shut out of the labour market. This occurs most especially among former farm-workers and their children. The available evidence on the level, patterns and dynamics of income inequality in the decade after apartheid is examined in an accompanying paper (Seekings *et al.*, 2004).

From 1994, South Africa was governed by a party committed rhetorically to, and with a clear political interest in, addressing poverty and reducing overall levels of inequality. This government inherited, in 1994, the set of policies affecting inequality that we have called elsewhere (Seekings and Nattrass, forthcoming: Chapters 1 and 4) the "Late Apartheid Distributional Regime". Whilst this was less overtly discriminatory than the distributional regime of the early decades of apartheid, it nonetheless underpinned inequality by rewarding existing advantage and penalising the already disadvantaged. The persistence of inequality after apartheid reflected the continuities between the Late Apartheid Distributional Regime and the Post-Apartheid Distributional Regime. In short, after 1994, government policies did not ensure equal opportunities for all in the new, democratic South Africa.

We define the 'distributional regime' as encompassing the combination of economic, labour-market and industrial policies that affect the economic growth path (and hence income distribution) as well as policies that redistribute more directly through public welfare provision and the benefits 'in-kind' of other forms of government spending, especially public education. The Late Apartheid Distributional Regime was characterised by policies that promoted a capital-intensive growth path, despite high unemployment, but increasingly mitigated the ensuing inequality through redistributive social spending, including public welfare (with old-age pension benefits finally deracialised in 1993) and public education. Opportunities were concentrated in the urban areas, whilst the bantustans served as dumping grounds where the unemployed could be geographically isolated and thus more easily controlled politically.

In this paper, we examine changes in these policies in the decade following democratisation in 1994, i.e. we examine the "Post-Apartheid Distributional Regime". The first section looks at the emphasis on deracialisation by the ANC-led government. Whilst deracialisation covered labour market policies, public education and social welfare policies, the major emphasis was on the promotion of a black economic elite and middle classes. As we suggested in our accompanying paper (Seekings *et al.*, 2004), this helped to change the racial composition of upper income deciles, but was of little consequence for either poverty or overall inequality. The second section examines the economic growth path, showing how policies continued to promote inequality. The third section analyses the role of the budget in redistribution. Overall, we show that key public policies were reformed rather than transformed after 1994, with the result that there was further deracialisation of opportunities at the top end of the income distribution but no or limited change in the position of people at the bottom end. Crucially, public policies exacerbated rather than mitigated the problem of unemployment. The final section analyses the politics of redistribution, explaining why there was not more political pressure to transform the distributional regime.

1. Deracialisation and Distribution

In the decade following its election into office in 1994, the ANC-led government consistently emphasised the priority of challenging the racially divided nature of South African society. Thabo Mbeki, then deputy-president, famously expressed this in his two 'nations' speech in Parliament in 1998. South Africa, he said, comprised 'two nations, the one black and the other white':

> 'One of these nations is white, relatively prosperous, regardless of gender or geographical dispersal. It has ready access to a developed economic, physical, educational, communication and other infrastructure. This enables it to argue that, except for the persistence of gender discrimination against women, all members of this nation have the possibility of exercising their right to equal opportunity, and the development opportunities to which the Constitution of 1993 committed our country. The second and larger nation of South Africa is black and poor, with the worst-affected being women in the rural areas, the black rural population in general and the disabled. This nation lives under conditions of grossly underdeveloped economic, physical, educational, communication and other infrastructure. It has virtually no possibility of exercising what in reality amounts to a theoretical right to equal opportunity, that right being equal within this black nation only to the extent that it is equally incapable of realisation' (*Hansard*, 29 May 1998, col. 3378).

The notion of a society comprising 'two nations' was not original. Benjamin Disraeli, who was later to become Prime Minister of Britain, first used the imagery of 'two nations' in his 1845 novel *Sybil, or the Two Nations*. For Disraeli, the two nations were the rich and the poor of nineteenth century England: 'Two nations between whom there is no intercourse and no sympathy; who are as ignorant of each other's habits, thoughts and feelings, as if they were dwellers in different zones, or inhabitants of different planets; who are formed by a different breeding, are fed by different food, are ordered by different manners, and are not governed by the same laws' (Disraeli, 1845/1930: 74). Disraeli contrasted the opulence of aristocratic life with the desperate squalor of industrial poverty, although his primary emphasis was on the social and cultural divide, rather than economic inequality *per se*. More recently, the imagery of two nations has been used in the United States with reference to inter-racial inequalities. Ghetto riots in the 1960s led to a warning by the National Advisory Commission on Civil Disorders that 'our nation is moving toward two societies, one black, one white, separate and unequal'. In 1992, a popular American political scientist, Andrew Hacker, used the imagery in a book on America entitled *Two Nations, Black and White: Separate, Hostile and Unequal* (Hacker, 1992). Hacker surveyed the scope of inter-racial inequalities in late twentieth century America across issues as varied as divorce rates, percentages of children born to unmarried parents, earnings and incomes, unemployment, educational achievement and crime.

Mbeki's use of 'two nations' imagery was similar to imagery used by Disraeli's and Hacker in that it was intended to draw attention to injustice. But, in contrast to Disraeli, Mbeki was not concerned with class itself, but with race. Unlike Hacker, Mbeki reduced inequality to race: black equalled poor and white equalled rich. Indeed, Mbeki claimed, black South Africans were 'equally incapable' of realising the right of equal opportunity. If Mbeki had attached more importance to social and cultural divides between white and black South Africans, he would have been on stronger ground, but by emphasising inter-racial economic inequality, he misunderstood the changing nature of inequality in South Africa, as we have shown in previous work (see Seekings et al., 2004). Race and class are no longer coterminous. A more appropriate use of the discourse of separate 'nations' would mirror the image painted of the USA by the American Catholic Bishops in 1995: 'The US economy sometimes seems to be leading to three nations living side by side, one growing prosperous and powerful, one squeezed by stagnant incomes and rising economic pressures and one left behind in increasing poverty, dependency and hopelessness' (quoted in Fisher et al., 1996: 3). In South Africa, these descriptions fit the three groups of classes that characterise South African society (see Seekings, 2003a). Of these, the prosperous category is increasingly multi-racial, the middle one (comprising most of the "working-class") is mostly African and only the impoverished third one is entirely African.

However ill-informed as an analysis of South African society, the 'two nations' interpretation guided a wide range of policies under both the Mandela and Mbeki governments. Deracialisation was a dominant theme in public policy.

With respect to distribution in particular, deracialisation had two major components. First, the government completed the process of removing racial discrimination from public policy. These are discussed below, with reference to labour market policies (in the second section) and welfare policies (in the third section). Second, it pursued policies designed to open up new economic opportunities for black, and especially African, South Africans, through policies of affirmative action and 'black economic empowerment' (BEE). Affirmative action (or 'employment equity') entailed expediting the promotion of 'designated' groups – including African people, and sometimes coloured and Indian people and even white women – in the labour market, and specifically into higher-paid occupations. BEE entailed expediting the expansion of black entrepreneurial and business-owning classes.

The view that this kind of economic deracialisation would transform more than just the top end of society was widely voiced as affirmative action and BEE was provided for in legislation. The 1998 *Employment Equity Act* raised the pressure on employers to implement affirmative action – supposedly not only to redress past discrimination but also to build the country's human capital more generally. Then a *Black Economic Empowerment Act* was passed in 2003 (following proposals made by a Black Economic Empowerment Commission, appointed in 1998). This Act, according to leading commentator Vuyo Jack, was 'a turning-point, a historic moment which will have far-reaching consequences for the economy and the country as a whole. The country now has a legal framework for redressing the economic imbalances of the past.' To underline the point, Jack added that 'the ordinary man on the street now has a real chance to participate in the mainstream economy' (quoted in *Business Report*, 11 January 2004).

Affirmative action contributed to the fast-changing racial composition of higher-earning occupations identified in the accompanying paper (Seekings *et al.*, 2004), especially in the public sector, and thus to the continuing shift in racial income shares. The promotion of black business might also contribute to changing patterns of inequality. Using the 1993 PSLSD data, we can calculate that redistributing one half of the income received by white households from *all* wealth and business activity to black households would have had the effect in 1993 of redistributing 6 percent of total income, i.e. of reducing the white racial income share by about one-eighth and increasing the African racial income share by one-sixth. But redistributing income from business and wealth could only ever be of minor importance compared to shifts in the labour market. In 1993, the total income earned from business and wealth was less than one-third of the total income earned from employment. BEE could only make a limited difference to the overall distribution of earnings and incomes unless it increased the number of jobs or expanded significantly the small business sector so as to reduce unemployment.

Apologists for BEE suggested that it would increase skills in the economy and expand the consumerist middle-class (the so-called 'missing middle'), both of which will boost growth. BEE was presented as a growth or developmental strategy that would have a wide reach through 'broad-based empowerment', including small and medium-sized enterprises, pension fund investment, worker-owned co-operatives and even rural trusts.[1] However, in practice, BEE focused on the very top end: firstly, through the transfer of equity, especially in the major corporations that dominate the high-profile sectors, and, secondly and especially, through procurement policies that reserve government and parastatal contracts for black-owned contractors. There is no reason to believe that these resulted (or could result) in increased employment or a significantly increased small business sector. Indeed, the expense of complying with BEE requirements might have reduced investment in other, perhaps more directly productive, directions. It is unsurprising that critics, including President Thabo Mbeki's brother Moeletsi Mbeki, have argued that black economic empowerment entailed simply 'enrichment of the few': 'Black economic empowerment is an issue for the black middle class and big business'. For big business, it was a politically defensive strategy, not a growth-enhancing one, whilst for the black middle-class it was a state-subsidised enrichment strategy. For 'ordinary folks', Moeletsi Mbeki said, 'it's really not an issue'.[2]

In practice, BEE had a limited effect on business *ownership* in the first ten years of post-apartheid government. Measuring BEE is a notoriously difficult task. Studies typically focused on identifiable BEE 'deals' and the ownership structure of companies listed on the Johannesburg Stock Exchange (JSE). In 2002, sixty-two deals were identified, with a value of R8 billion, but black-controlled firms accounted for just 3 percent of JSE market capitalisation and black beneficial ownership was estimated at between 12 and 15 percent of the JSE.[3] Whilst public procurement policies, which are even harder to measure, were probably more successful in terms of building black-owned business, the overall transfer of opportunities remained small.

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[1] Interview with Lionel September, official in charge of BEE in the Department of Trade and Industry, in *Mail and Guardian*, 4 April 2003.
[2] Quoted in *Mail and Guardian*, 26 September 2003.
[3] Estimates by BusinessMap, reported in *Mail and Guardian*, 5 September 2003.

This slow transformation of capitalist ownership is what drove the state in 2003 to adopt a more interventionist approach, including the BEE Act. Assessing this shift, Southall concluded that the ANC government was ‘leaning towards construction of a pro-capitalist, interventionist state prepared to use its power, influence and divestment of assets to create a black bourgeoisie, expand the black middle class, and to generally produce a seismic transfer of wealth from white to black over a ten to twenty year period’ (Southall, 2004: 326). Even a ‘seismic’ shift would, however, have a limited effect on overall patterns of income distribution. In any capitalist economy, ownership is in flux as new generations of entrepreneurs take over from or force out older generations. The main effects of BEE were (and would be) to accelerate this process whilst largely restricting the new opportunities to black South Africans, but without changing significantly overall patterns of distribution. Those overall patterns of distribution depended, rather, on the broad growth path of the post-apartheid economy, changes in the labour market and patterns of public social expenditure.

2. The Post-Apartheid Growth Path

At the start of the negotiated transition in 1990, the ANC did not have a clearly formulated economic policy. The *Freedom Charter*, which had been adopted at the Congress of the People in 1955, was the ANC’s closest approximation of a development strategy. It contained a commitment to redistribution and a strongly interventionist role for the state which included the regulation, control and even outright nationalisation of key sectors of the economy. Days after his release from prison in 1990, Nelson Mandela restated his support of nationalisation. But when this resulted in adverse market reactions and vocal criticisms from business constituencies, the ANC embarked on a rapid process of policy reformulation. Over the next four years, economic policy statements evolved from an initial support for ‘growth through distribution’ to more orthodox-sounding positions which eschewed nationalisation, and committed the government not to embark on any inflationary or debt-driven expansion of demand (Nattrass, 1994).

This shift in policy stance from what appeared to be a form of socialism to more market-friendly strategies has been attributed by some analysts to the power of big business and the international financial institutions to impose their ideology on the prospective government (Bond, 1996; Marais, 1998; Terreblanche, 2002). Whether this was the case, or whether it was a function of genuine intellectual conversion or pragmatic adjustment to the real politik of the post-communist world, remains uncertain. What is clear is that, in 1994, the ANC still seemed committed to a social democratic vision, in which the needs of both organised labour and the poor would be addressed, but within a capitalist economic framework.

2.1 Export-Led Growth and the 'High Productivity Now' Strategy

The new generation of policy-makers had high hopes for transforming the economy in ways which brought further gains for organised labour but which also benefited capital, thereby promoting wages and growth (and thus jobs). Think-tanks like the *Industrial Strategy Project* argued that industrial and labour-market policies could propel the economy onto a new and better 'high-wage, high value-added' growth path (Joffe *et al.*, 1995). This strategy had several components. First, firms in 'priority sectors' were to be provided with targeted support to help them to adopt new technologies and to develop export links. This idea was backed by comparative research that showed that a 'developmental state' could support export-oriented industrialisation and help firms to become competitive (Amsden, 1980; Wade, 1990; Weiss, 1998).

Secondly, active labour-market policies were deemed necessary to promote skills development and training. It was hoped that training would facilitate higher wages without harming profitability because skilled workers are more productive than unskilled workers. Increased minimum wages were in fact seen as a lever to force firms to shift away from 'low-wage, low-value added' activities. The idea was simple: faced with higher unskilled wages, firms would be compelled to upgrade their technologies and train their workers or face a profit squeeze. Supply-side measures (such as government support for training) would help firms make the necessary transition without shedding labour or going out of business. Those firms that would go out of business despite government support for training were regarded as undesirable anyway, the general view being that South Africa could do without such 'sweat-shops' and 'fly-by-night' producers. Proponents of this 'high-wage, high value-added' strategy optimistically assumed that those workers who lost their jobs would be re-employed once the economy shifted onto a higher, better and sustainable growth path. In the meantime, they would be supported through public works programmes and other expanded welfare measures.

It was a commonly held assumption amongst ANC-aligned economists and policy strategists that the new government would pursue additional policies to promote job creation. They expected the government to embark on a major housing programme thereby boosting the labour-intensive construction industry. This was one of the key proposals of the ANC's Macroeconomic Research Group (MERG, 1993). They also expected an expanded national public works programme to provide some relief for the unemployed. The ANC's 1994 election manifesto, the 'Reconstruction and Development Programme' (RDP) supported such expectations (ANC, 1994). The RDP also referred to 'basic welfare rights' which apparently embraced 'the right to basic needs such as shelter, food, health care, work opportunities, income security and all those aspects that promote the physical, social and emotional wellbeing of all people in our country, with special provision made for those who are unable to provide for themselves because of special problems' (*ibid*: 52).

In short, this bold new social democratic vision saw the state providing a safety net for the poor whilst promoting major structural adjustment towards a high-wage, high-productivity economy. With their eyes fixed firmly on the long-term, the new policy-makers hoped that orthodox yet mildly redistributive macroeconomic policies would encourage private investment and that targeted industrial policies would provide further support for business whilst also increasing the number of new 'good' jobs. Labour-market policies were seen as necessary for improving the supply of skilled labour and to help eliminate low-productivity (and hence low-wage) activities. Whereas the old apartheid growth model relied on cheap labour to drive accumulation, the proposed post-apartheid model saw higher wages as both a policy weapon to bring about, and an outcome of, a high productivity growth path (MERG, 1993; Joffe *et al.*, 1995).

These ideas and arguments formed the intellectual basis for much of the post-apartheid government's industrial and labour policies, which we have described elsewhere as South Africa's 'High Productivity Now' strategy (Nattrass, 2001). This strategy entailed a mixture of incentives to encourage training and the development of high value-added forms of economic activity and continued support for those aspects of labour market policy that hinder low-wage, labour-intensive job creation. One arm of the strategy was implemented by the Department of Trade and Industry (DTI) through its various supply-side policies to encourage South Africa's pattern of industrial production to move 'up the value chain', i.e. to shift the economic structure towards a more skill-intensive growth path. The other arm was implemented through the Ministry of Labour which introduced various measures (including a Skills Levy on business to fund sectoral training initiatives) to promote a more skilled labour force earning higher wages and working under better employment conditions.

The post-apartheid government kept the old industrial conciliation machinery intact (including the extension of collective bargained agreements to non-parties), thereby ensuring close continuity between the pre- and post-apartheid labour-welfare nexus. Trade unions and employers set minimum wages in Bargaining Councils which were then 'extended' by the Minister of Labour to all firms in the industry. Given that Bargaining Councils were dominated by the relatively large (and better-paying) employers, the extension of the minimum wage to smaller, more labour-intensive firms may well have undermined the growth of labour-intensive firms and sectors, thus contributing to the growth of unemployment (Nattrass, 2000). However, this was only one among many factors which contributed to the rise in unemployment during the 1990s.

2.2 Policy Shortfalls

With the benefit of hindsight, it is now clear that the High Productivity Now strategy was hopelessly over-optimistic on all fronts. As shown in Seekings *et al.* (2004), formal employment fell sharply and has been a major factor behind the increase in unemployment and poverty. Most disappointingly, employment fell in manufacturing, i.e. the very sector that was supposed to lead the South African economy on a new growth path. In 2003, Kaplan (who had been part of the old *Industrial Strategy Project* and then worked for the DTI) documented the poor 'score card' for manufacturing and, by implication, the DTI. Kaplan (2003) observed that South Africa's manufacturing sector performed poorly in comparison with other countries, and that output growth was only marginally higher in the 1990s than the 1980s. Even South Africa's most dynamic manufacturing products performed disappointingly. The DTI's own research revealed that firms that had been targeted for special support either did not know about the policies, or thought they were of limited help. The ambitious vision of a DTI as the main arm of a developmental state providing supply-side support and direction to private industry was clearly over-optimistic. According to Kaplan, part of the problem was that the DTI had too many objectives in relation to available capacity to deliver.

To make matters worse, firms faced a very difficult macroeconomic environment in the 1990s. Instead of injecting demand into the economy, the new government was forced to deal with high levels of government debt and an explosive budget deficit, both legacies in large part of the profligate final years of the old apartheid government. Then, once the debt situation had been brought under control, this macroeconomic stance was codified into the so-called 'GEAR' strategy of 1996. GEAR, which was short for 'Growth, Employment and Redistribution', effectively side-lined the RDP and committed the government to more orthodox fiscal policies. The gamble taken by the Ministry of Finance was that this orthodox stance would encourage investment by sending a 'signal' to investors that government finances would be 'responsible' (Nattrass, 1996). Historically high rates of investment in East Asia have been attributed to the absence of inflationary deficit financing (Birdsall and Jaspersen, 1997). The GEAR modellers hoped to create precisely such a pro-investment environment.

The problem with this macroeconomic strategy was that one of the most important determinants of whether a firm invests or not, is whether it expects to be able to sell its products. A high level of demand thus encourages higher investment (Chirinko, 1993). If the government holds back on spending, and if private sector incomes are growing slowly, then firms will worry about poor market conditions. They will lack confidence to invest, no matter what 'signals' the Minister of Finance tries to send them about sound fiscal policy. Sluggish economic conditions in the 1990s may well have prevented investors from becoming the driving force for growth (as hoped for by GEAR). Instead, private investment grew at about a tenth the rate that the state had projected for the period 1996 to 1999 (Nattrass and Seekings, 2001).

Any assessment of GEAR is complicated by the fact that large parts of the GEAR strategy were never implemented. Only two of the four major components to GEAR were implemented by 2004: the reduced budget deficit and trade liberalisation. The other two were not: labour market reforms and privatisation. The pattern of labour market reforms certainly contributed to GEAR not meeting its targets. Before GEAR was announced, the government had enacted a new *Labour Relations Act* that entrenched and extended the system of wage determination through centralised bargaining. Following GEAR, the government enacted further legislation that contrasted with the vision of a more flexible labour market set out in GEAR. The 1997 *Basic Conditions of Employment Act* provided for longer annual and family leave (thus increasing the indirect cost of employing labour) and reduced hours of work (thus increasing hourly fixed costs). The over-time premium was also increased, with the result that over-time labour is now paid over two and a half times that of workers in comparable middle-income countries (Barker, 1999: 19). The government also extended minimum wage floors. Promised reforms to existing labour laws – such as amendments to the mandatory extension of collectively bargained agreements to non-parties – did not materialise.[4] The cost of retrenching workers rose, in both administrative and directly financial terms.

According to evidence from the OECD (1999: 156-9), countries that have undergone macro-economic stabilisation without addressing such labour market issues have paid the price of higher unemployment. Co-ordination failures between fiscal, monetary and labour-market policies are one of the many reasons for the decline in employment. The government has also failed to deliver jobs through short-term poverty-relief employment programmes. Although great plans were trumpeted about short-term job creation for the unemployed in public works programmes and the like (e.g. RSA, 1998), the government had little success in deploying the few funds that were actually allocated for such purposes. State institutions lacked the capacity to implement policies (Nattrass and Seekings, 1998). The Departments of Welfare (or Social Development) and Public Works were strongly criticised for their inability to spend funds allocated for job creation and poverty alleviation programmes.[5] The Department of Water Affairs, which ran the Working for Water public works programme, was an exception to this general pattern.

Some of the causes of South Africa's lack-lustre growth performance were beyond the control of the government. The Asian crisis and over-zealous monetary policies by the independent reserve bank both acted as unexpected economic brakes. Nevertheless, it is a moot point whether the government should have continued with its restrictive fiscal policies given the recessionary conditions of the time (Weeks, 1999). There is mounting evidence that pursuing anti-inflationary policies undermined growth in the developing world (Stiglitz, 1998) and South Africa is unlikely to have been an exception to the rule. Furthermore, by continuing with trade liberalisation in the absence of labour market reforms, the government probably contributed to employment losses. Import-competing industries (particularly the ultra-labour intensive industries) were particularly hard-hit, with the result that South Africa's export industries became increasingly capital-intensive (Bell and Cattaneo, 1997; ILO, 1999).[6]

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[4] Both the Ministry of Finance's GEAR strategy (RSA, 1996) and the Ministry of Labour's Employment Strategy Framework (RSA, 1998: 44) recommended that amendments be made to the extension of collectively bargained wage agreements to non-parties. Soon after the Labour Market Commission presented its report (LMC, 1996), the Minister of Labour announced that changes to the mandatory extension provision were immanent – yet nothing came of it. The State President made a similar announcement in early 2000, but with no effect.

[5] See 'Now Public Works Betrays the Poor', *Sunday Independent*, 11 June 2000.

[6] This is not to say that the net impact of trade liberalisation was to reduce jobs. Indeed, there is evidence that the overall impact has been marginally positive as export industries have

Under these conditions, it is not surprising that many manufacturing firms felt beleaguered rather than supported by government. As noted earlier, DTI surveys of firms reported complaints about labour regulations (particularly restrictions on firing) and the cost of labour (Kaplan, 2003). Labour-intensive firms and sectors were particularly vulnerable. As these relatively low-wage, low value-added activities died out, employment fell and average productivity rose. This was in line with the expectations of those who argued in favour of using higher minimum wages as an instrument of industrial restructuring. The problem with this strategy, however, was that the supply-side policies to support rapid growth in high value-added sectors did not work, and there was nowhere else for workers to find employment when they were retrenched.

By the early 2000s, South Africa had more of a ‘high-wage, high value-added economy’, but the benefits were restricted mainly to those (predominantly skilled) workers who had retained their jobs and to those capitalists who had remained in business. By restructuring and ‘down-sizing’ their workforces, firms ensured that each remaining worker contributed more, on average, to output (i.e. became more productive). They were also able to restore profitability.

One indication of profitability is the gross profit share (i.e. the share of gross output going to the owners of capital). If the growth in labour productivity is greater than the growth in real wages, then workers are contributing more to output growth than they are getting back in wages, and hence the share of output going to capitalists (the profit share) will rise. Figure 1 shows that the average rate of growth of productivity in South Africa exceeded that of real wages for most of the 1990s. As a result, the aggregate profit share was about 10 percent higher in 2001 than it was in 1990. Capitalists also benefited from rising rates of profit (i.e. the rate of return on capital) in most sectors. The High Productivity Now strategy appears to have resulted in rising real wages for workers with jobs. But it did little to improve the economy’s capacity to create jobs. In this post-apartheid ‘distributional regime’, the unemployed were the biggest losers.

The policy gamble taken by the South African government was that the shift to greater capital- and skill-intensity would provide a new engine for sustainable

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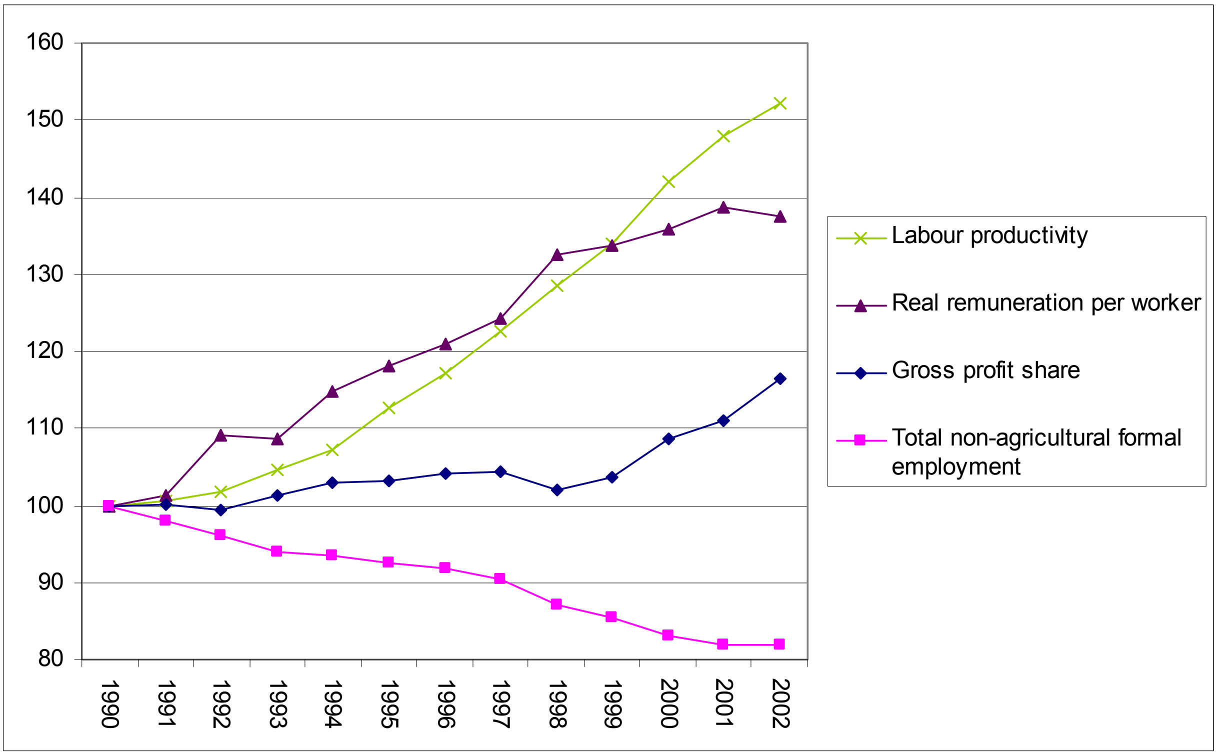
helped boost labour-intensive down-stream industries like transport and services (Edwards, 2001). The point is simply that a more flexible labour market would probably have reduced the negative impact of trade liberalisation.

growth in the medium- to long-term. Unfortunately, skill shortages (which drove up the price of skilled labour relative to unskilled labour) continued to act as a constraint on growth – and this situation was exacerbated by the brain-drain of young white professionals that was, in part, due to affirmative action policies.



Source: South African Reserve Bank. The graph shows indices, set at 1990=100.

Figure 1. Labour Productivity, Employment, Wages and Profitability, 1990-2002

2.3 Agriculture and Land Reform

Agriculture might be of limited importance to the economy as a whole and make a small contribution to aggregate incomes, but changes in the sector – as well as the absence of change – have serious implications for distribution because of the pronounced impact on the welfare of the poor. At the end of apartheid, a high proportion of the marginal working class or the 'working poor' were unskilled farm-worker households, and commercial agriculture accounted for a considerable share of unskilled jobs in the country as a whole. Many households in the underclass comprised ex-farm-workers who had been moved from farms to the resettlement areas in the former bantustans. The expansion of employment, including unskilled employment, on commercial farms would therefore have brought major benefits to the poor, as would improved access to land through land reform. But the Post-Apartheid Distributional Regime proved to be disastrous for the rural poor, as policies contributed to continued deagrarianisation: farm-workers continued to be evicted from commercial farms in large numbers, there was no major programme of land reform resettling families onto smallholdings, so these largely unskilled families were pushed into the most disadvantaged positions in a labour market characterised by massive unemployment.

The Post-Apartheid Distributional Regime led to evictions of farm-workers and their families off commercial farms, as under apartheid but, in contrast to the apartheid period evictions, were the unintended consequences of policies designed to be pro-poor. The first set of policies was concerned with the liberalisation and deregulation of agricultural marketing. Under apartheid, white farmers benefited from massive state support, both directly in the form of government subsidies (that invariably promoted capital-intensive production) and indirectly in the form of marketing institutions that pushed up producer prices, to the disadvantage of consumers. Prices had been set on a generally 'cost-plus' basis through monopolistic, para-statal marketing institutions. In the early 1990s, the state began to deregulate, so as to eliminate subsidies to a tiny, privileged minority, thereby also reducing disincentives to labour-intensive production, and to reduce consumer prices. This process was completed by the ANC government after 1994. The massive maize and wheat boards were abolished in 1997, and all other domestic marketing boards (except for sugar) in 1999. These shifts squeezed many smaller family farms, leading to further consolidation of commercial farmland into fewer, less labour-intensive farms.

Whilst agricultural product markets were being deregulated, agricultural labour markets were being regulated. Labour legislation was applied to the commercial farming sector, together with statutory minimum wages and social insurance (through the unemployment insurance fund). Security of tenure, in terms of both access to land and housing, was provided by the *Extension of Tenure Security Act* of 1997. All of these were intended to protect the working poor. The immediate effect was probably the opposite. Landowners evicted farm-workers in anticipation of the 1997 act and thereafter continued to reduce the labour force resident on farms. Labour legislation also prompted employers to reduce their labour requirements, leading to rising capital-intensity. This capital-labour substitution effect could be achieved in various ways, including changing crop patterns, moving from crops to livestock or converting agricultural land into game-farming. Permanent employment was widely replaced by part-time or seasonal employment. Farmers even began to out-source labour-intensive activities. Growing agricultural production, in part a response to export opportunities, raised the demand for skilled labour, but the demand for unskilled labour continued to fall. Overall, agricultural employment declined dramatically. The rural poor were further impoverished by diminished access to on-farm housing and the other benefits of paternalism. The consequence was yet another generation of ex-farm-workers, this one removed to shack settlements around agricultural towns (see, for example, Du Toit, 2003).

In the mid-1990s, there emerged a vocal lobby advocating re-agrarianisation through land reform. Some scholars as well as the World Bank argued that land reform could create a productive and sustainable class of smallholding farmers or peasants, reversing the process of deagrarianisation. Land reform could, it was argued, make a major contribution to reducing unemployment. Indeed, given prevailing high wages compared to international competitors, land reform was arguably the most promising strategy for reducing unemployment (Lipton *et al*., 1996; also Binswanger and Deininger, 1993).

> 'For instance, a 900 hectare irrigated farm might produce maize, with tractors, combines and centre-pivots; this would involve fewer than ten farm-workers. Alternatively, on the same land, three hundred farmers, each with three hectares, might mix maize with higher value beans on most of the land, growing intensive vegetables on the better soil, ploughing with stall-fed oxen, and irrigating with small scale manual methods, with mainly family labour plus seasonal employees. … If labour is plentiful, capital and irrigation scarce, and land becoming scarce, then the small farm system is more socially efficient. This is disguised if big farmers, or their political agents, succeed in biasing in their favour prices of (or institutions that allocate) water, research, credit, and other inputs' (*Ibid*: vi).

This optimistic approach, based on an insufficiently critical reading of the Kenyan experience, initially found favour in the post-apartheid state. From 1994 to 2000, the state provided subsidies to enable African small farmers to buy land at market prices from white landowners. The government initially set itself the target of transferring about 30 million hectares, or 30 percent of the country's medium- to high-quality farmland to 600 000 households by 1999. Some of this would be redistributed through land restitution – i.e. the return of land to individuals or groups dispossessed under apartheid – but the lion's share would be transferred through a 'willing buyer, willing seller' process of land redistribution. Poor people would be able to purchase land through a means-tested subsidy equal in value to the subsidy available in urban areas for housing (R15 000, initially). Small farmers would have to combine, pool their subsidies and whatever other capital they could lay their hands on, and buy a farm from a landowner. After a very slow start, redistribution accelerated from 1996. By 2001, however, only 732 000 hectares had been transferred, to about 87 000 poor households (Aliber and Mokoena, 2003: 333).

Many of the beneficiaries were, in fact, not so poor. Murray (2000) documents one example from the Free State. This family, headed by Qhesi Matsau, had made money through other small businesses before being granted a temporary lease on a 500-acre farm, which they 'shared' with the former farmer's farm-workers – although only the family had many livestock. At the end of 1995, the farm was allocated to four applicants, each of whom qualified for a R15 000 subsidy. The applicants were Qhesi Matsau, his son-in-law, his sister's son and his own son. The family then tried to squeeze the former farm-workers off 'their' land. As Murray summarises: 'Matsau was typical of a stratum of local businessmen who were relatively well placed, on account of their established urban enterprises and corresponding ability to fund farming operations, to take advantage of the new opportunity' (*ibid*: 133).

Deininger and May (2000), in a study of the land reform experiment, concluded that, with minor reforms, it could make a major contribution to reducing poverty in rural areas. Schirmer (2000) was more sceptical. Land reform would not work, he argued, because small-holder productivity was low due to a lack of access to the necessary capital. Only if the state provided massive financial assistance could small-holders make the necessary investments and prosper. In addition, small farmers were especially vulnerable to price fluctuations, drought and disease, struggled to mobilise family labour, and perhaps had lost their knowledge of farming. Just as many poor families left land un- or under-used during apartheid, so land reform was more likely to result in land being used for residential instead of productive purposes. Aliber and Mokoena (2003) suggest a different explanation for the poor performance of farmers on redistributed land: the Department of Land Affairs emphasised the continuation of the capital-intensive farming activities conducted by the former land-owner and the generation of good livelihoods for a small number of people working full-time. The new farmers made little use of the one factor that most had in copious supply, i.e. labour.

In 1999, the new Minister of Land Affairs and Agriculture placed a moratorium on new redistribution projects pending a review of policy. The Minister soon decided that the existing policy was neither fiscally nor administratively viable.

In 2000, she announced a major policy shift, ending support for small farmers or peasants and shifting instead to an emphasis on black commercial farmers. Under the new policy, called 'Land Redistribution for Agricultural Development', government subsidies would be much larger for African farmers investing other funds of their own. The maximum grant would be a massive R100 000. The new Minister of (both) Land and Agriculture explained the new policy in terms of BEE and the imperative of 'deracialising' land ownership (Greenberg, 2003; Mapadimeng, 2003). The redistribution of land remained slow. In 2003, the government finally passed legislation allowing, under specific conditions, for the appropriation of land at market value, i.e. it abolished the 'willing seller' provision (but not the requirement that compensation be paid at 'market' value). This was likely to expedite the redistribution of land to new, commercial black farmers.

Overall, therefore, government policy has not succeeded in being pro-poor. Farm-workers have experienced continued retrenchments and dispossession, despite supposedly protective legislation. Land reform has not benefited the poor significantly. The reforms that have been implemented have generally been to the benefit of a constituency that was already relatively advantaged. In this crucial, sector, the Post-Apartheid Distributional Regime has not resulted in improved livelihoods for the poor.

3. Redistribution through the Budget

Redistribution through the budget is a core component of most distributional regimes in capitalist economies. Democratic states are typically subject to political demands to mitigate the inequalities generated in the market through redistributive patterns of taxation and public expenditure. The scope for increased redistribution through the budget in South Africa after 1994 was constrained predominantly by two factors. The first was the government's commitment to conservative macro-economic policies, which precluded large increases in overall government spending without matching increases in taxation. The second was the fact that the ANC-led Government of National Unity inherited, in 1994, a budget that was already surprisingly redistributive. Despite these constraints, the value and effects of redistribution through the budget increased after 1994, according to standard measures, with the result that South Africa redistributed more extensively through the fiscus than any other developing country for which data was readily available (Seekings, 2002a).

Redistribution through the budget entails the combination of taxation, cash transfers (such as the old-age pension) and benefits in-kind (such as public education, health care and housing). At the end of apartheid, the three pillars of redistribution were already in place: a progressive and efficient tax system, high enrolment rates in school among poor children and an exceptional public welfare system based primarily on *de facto* universal and generous old-age pensions. McGrath *et al.* (1997) calculated that redistribution through taxes, cash transfers and in-kind benefits reduced the Gini coefficient in the 1993 to 1994 period from about 0.7 to about 0.6. Van der Berg recalculated the extent of redistribution, concluding that it was reduced to 0.6 after tax and cash transfers, but to 0.51 if all social spending was taken into account.[7]

3.1 Social Expenditure

The budget became more redistributive after 1994. By 1997, according to Van der Berg (2001b), the Gini coefficient for the distribution of 'income' was reduced by about eighteen percentage points (to about 0.50) if taxes and cash transfers were taken into account and by a further six percentage points (to perhaps 0.44) if the value of in-kind public social spending (primarily health care and education) was taken into account. Social spending on the poorest 40 percent of households (i.e. quintiles 1 and 2) rose by about 50 percent between 1993 and 1997. In 1993, 31 percent of public spending on education, health, social assistance, housing and water was spent on households in the bottom quintile, compared to 21 percent on the second quintile and so on, up to just 12 percent on households in the top quintile (see Table 1). By 1997, the proportion spent on the poorest quintile had risen to 33 percent, and the proportion on the top had fallen to just 8 percent. Over this period expenditure *per capita* rose, overall, by 24 percent. Expenditure *per capita* on the bottom three quintiles all rose faster than this overall average, whilst expenditure *per capita* on the top two quintiles actually fell. On the basis of these calculations, the Department of Finance (RSA, 2000: 145) claimed that 'the first years after the political transition saw a large and significant shift of social spending from the affluent to the more disadvantaged members of society'.

A small part of this was made possible by reduced spending on the rich, in that spending *per capita* on the top quintile actually declined. But the bulk of extra spending on the poor in the mid-1990s arose out of increased and well targeted

[7] Personal communication. Van der Berg's recalculations of the 1993/94 data in terms of income quintiles are explained in Van der Berg, 2001a and 2001b.

spending by the government. Social spending rose rapidly in the mid-1990s, especially on public education. In the late 1990s, under the GEAR austerity programme, real government spending declined by about one percent per year. Between 1996/97 and 2000/01, social spending increased in real terms, in aggregate, and rose as a proportion of total government spending – but at the same time it declined in real *per capita* terms and as a share of gross domestic product (GDP) (Van Zyl and Westhuizen, 2003: 10). From 1999, however, social spending increased in real terms at a very much faster rate. In the four financial years between 1999/2000 and 2003/04, total social spending was budgeted to increase in real terms by one-third again, outpacing the growth of the population or GDP.[8]

Table 1. Social Expenditure by Income Quintile, 1993 and 1997

	Year	*Household income quintile*					*Total*
		1	2	3	4	5	
School education (%)	1993	23	23	19	18	17	100
[*38%*]	1997	29	28	20	14	9	100
Tertiary education (%)	1993	13	17	23	25	21	100
[*8%*]	1997	14	18	24	25	19	100
Health (%)	1993	26	25	24	18	7	100
[*24%*]	1997	28	26	24	16	7	100
Social assistance (%)	1993	59	18	13	8	2	100
[*20%*]	1997	58	18	14	8	2	100
Housing (%)	1993	9	12	19	28	32	100
[*5%*]	1997	33	47	5	7	8	100
Water (%)	1993	20	21	22	19	19	100
[*4%*]	1997	25	25	22	16	13	100
Total (%)	1993	31	21	22	17	12	100
[*100%*]	1997	33	25	19	14	8	100
Spending *per capita*	1993	1969	1246	1364	1686	1569	1555
(R)	1997	2514	1947	1786	1661	1253	1924
Increase in spending *per capita* (%)	1993-1997	+28%	+56%	+31%	-2%	-20%	+24%

Note: Figures in italics within square brackets in the first column are the shares of total social spending in each category, in 1997.
Source: Van der Berg (2001b: 148).

The increased levels of social spending led the ANC government to claim, on the basis of extrapolating from the 1997 data, that it had further reduced

[8] Expenditure data is from the National Treasury's *Budget Review 2003*, p.148, deflated using the consumer price index.

‘massively’ the Gini coefficient (RSA, 2003: 17). But there is no thorough fiscal incidence analysis to support this. The only sector for which careful calculations have been done is social assistance, for 2000. Woolard (2003: 5) calculates that the share of social assistance going to households in the poorest quintile was almost the same in 2000 as Van der Berg had found in 1997; the proportion going to households in the top two quintiles was actually higher in 2000 than in 1997.

3.2 Education

This targeted expenditure entailed not *cash* income, in the form of government welfare transfers, but rather benefits *in-kind*, especially in terms of public education (see Table 1). Van der Berg (2001a) shows that the removal of indirect discrimination in teachers’ salaries, together with the provision of extra teachers and hence reduction in pupil-teacher ratios, entailed massive expenditure increases in ‘African’ schools, i.e. schools with overwhelmingly African students, especially in poor, rural areas. Under apartheid, teachers were paid on different salary scales. After 1994, all teachers were moved onto a single, consolidated salary scale, based on the scale of the former white education departments. Approximately 40 percent of teachers were moved into higher salary brackets, and average salaries rose by between 12 and 15 percent. This shift was probably driven by the need to deracialise salaries, especially given pressure from African teachers, rather than a concern with the poor. But if the value of public education is deemed equal to the cost of providing it, then the poor can be said to have benefited substantially from this increase (see further Seekings, 2003b).

It is unlikely, however, that the quality of schooling improved dramatically, and the ‘shift’ in spending toward the poor in this regard is probably somewhat misleading. Teachers in schools in poor areas remained inadequately qualified; many taught badly; some were often absent. In the short-term, at least, the major beneficiaries of increased educational spending were teachers (who are not poor), not the students sitting in their classes. Unfortunately there are no comprehensive indicators of the quality of education that can be matched with data on spending, as the only public examination was the school-leaving (matric) exam. But there is abundant evidence that the quality of education varied considerably, and in many poorer areas was very low. Nationally, the pass rate for the matric examination (i.e. at the end of grade 12 or standard 10) was 58 percent in 2000 (with huge variations between provinces), but five hundred schools had a pass rate lower than 20 percent, and fifty-six schools failed to register a single pass. In each of 2001, 2002 and 2003, the matric pass *rate* improved rapidly, but the actual *number* of students passing matric rose only marginally, and the proportion of the total age cohort passing matric remained steady. Numeracy and literacy tests administered to samples of students in lower grades showed there were enormous variations within South Africa, but on average students' skills were lower than in any other country for which there is equivalent data (Seekings, 2003b).

There are alternative ways of estimating the value of public expenditure on education. For example, the value of spending on an additional year of secondary schooling might be set at the estimated increase in earnings and income associated with that extra year of schooling. This would result in a much less egalitarian incidence, because the economic returns to education increase with each year of schooling. The value of schooling for children who later become professionals will be very high, but the value to children who spend their lives in unskilled employment or even unemployed will be low.

3.3 Municipal Infrastructure

In other areas besides education, apparently pro-poor public expenditure may not convert readily into sustained improvements in the lives of the poor. Considerable attention was paid in the early 2000s to the duration over which poor people benefited from public investments in municipal infrastructure, including especially the provision of water and electricity. Although government policy provided for free provision of limited water, an inability or unwillingness to pay for all water consumed led to a significant number of poor households having their water disconnected. MacDonald (2002: 170), using data from a 2001 survey, claimed that ten million people had been affected by water cut-offs and a similar number by electricity disconnections, whilst two million people had been evicted from their homes because they were unable to pay their water or electricity bills and a further 1.5 million people had had property seized. The government disputed these figures.[9] Whilst the precise numbers of households affected remained uncertain, it was clear that capital expenditure on the poor did not always lead to extended welfare benefits. Overall, therefore, whilst there were substantial shifts in terms of where money was spent, it is unclear how much the poor actually benefited in terms of the *quality* of the services provided.

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[9] See, for examples, Ronnie Kasrils (Minister of Water Affairs and Forestry), in *The Sunday Independent*, 29 June 2003.

3.4 Social Security Transfers

One area of expenditure where government spending converts very closely into real and immediate gains for the poor is social assistance. The post-apartheid state inherited a very redistributive welfare system, based around non-contributory old-age pensions and, to a much lesser extent, non-contributory disability and child maintenance grants. The total number of people receiving one or other non-contributory government grant rose from under three million in the late 1990s to over four million people – or one in ten South Africans – in May 2001 and almost six million by February 2003 (Woolard, 2003: 2). The government's decision in 2003 to extend the cut-off age for Child Support Grants was predicted to redistribute further tax revenues to the poor (see Van der Berg and Bredenkamp, 2002).

The single most important instrument of redistribution through the budget is the Old Age Pension. By 1994, pensions comprised a major source of income for the poorest 40 percent of households. In the last years of apartheid, the deracialisation of pension benefits was achieved through large increases in the real value of the pension paid to African people. But between 1993 and 2002, the real value of the Old Age Pension declined by an average of about 1,5 percent per year, or a total of about 20 percent, before rising marginally in real terms in 2003 (see Figure 2). This is perhaps because the new government believed that the dramatic increase in the African pension in the early 1990s was unwarranted, and perhaps because of the government's commitment to restrain public spending. However, the fact that the Old Age Pension declined faster than total government spending in the late 1990s indicates that the poor bore the brunt of the adjustment, whilst they also failed to benefit from expanded social spending in the early 2000s.

Financial pressures on the Department of Welfare were certainly behind the far more drastic reduction in the value of public financial support for low-income single parents in 1998. Up to 1997, low-income single parents were eligible for State Maintenance Grants. The grant paid a basic R430 per month to the single parent, plus R135 per child up to the age of eighteen years, subject to a limit of two children. Thus a single mother with two children could receive as much as R700 per month. In 1994, the combined value of State Maintenance Grants and Foster Care Grants was almost R10 billion, paid out to about 400 000 beneficiaries (RSA, 1994: 6.4). Just over 200 000 children received the State Maintenance Grants and about 150 000 mothers (or, occasionally, other care-givers), suggesting that at least three out of four families benefiting were claiming for one child only. The problem with the grants was that, even after the removal of racial restrictions on access, take-up rates were very low among African parents, especially in rural areas. In 1994, only one-fifth of the grants were paid to African recipients, whilst nearly 60 percent were paid to coloured recipients (*ibid*). The grants absorbed 12 percent of the welfare budget. But, if take-up rates rose, the welfare budget would have sky-rocketted (see, e.g., IMF, 1995).

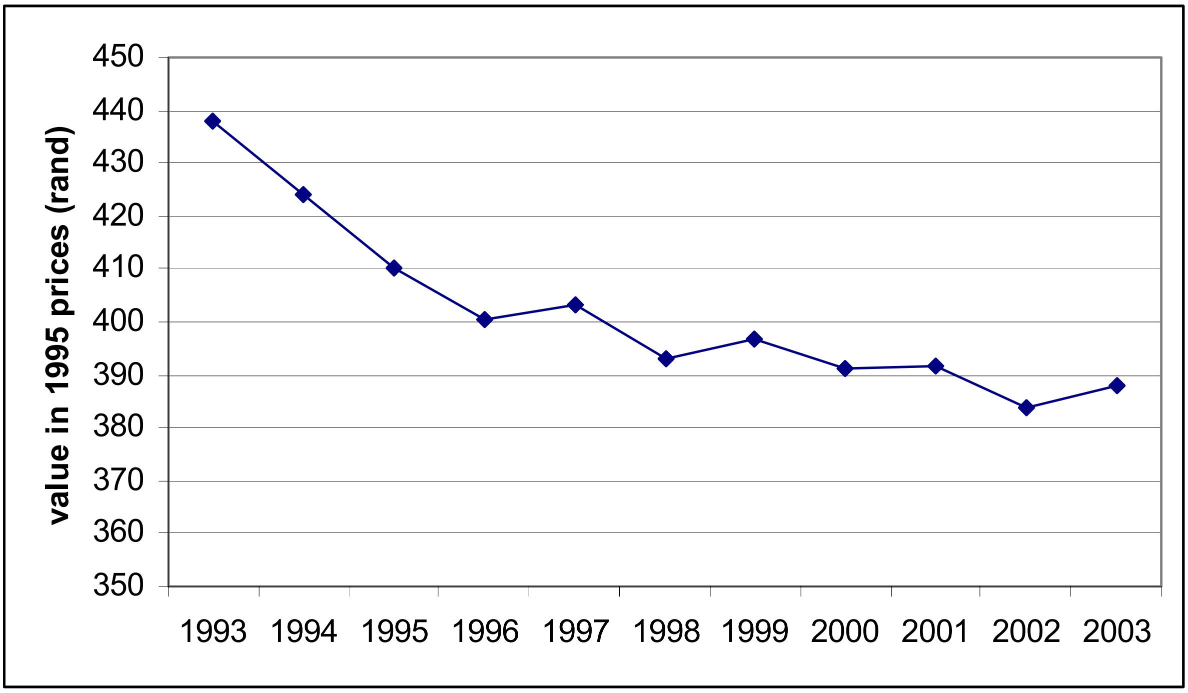


Figure 2: Real value of the old-age pension, 1993-2003

Worried about the financial implications of increased take-up rates among the African poor, the national and provincial ministers of welfare were said to have considered terminating child support entirely. Instead, however, the Minister appointed a Committee of Inquiry into Child and Family Support in February 1996. The Committee, chaired by Professor Francie Lund of the University of Natal, presented their findings in late 1996. The Committee proposed that the old State Maintenance Grants be replaced by new Child Support Grants at the much lower value of R75 per child, supposedly sufficient to cover only food and clothing, and only up to the age of six years, and still for a maximum of two children. The grant would be means-tested, subject to a maximum income of R800 per month. Applicants would also have to show that they had sought to secure financial support from the child's other parent, if appropriate, through the courts. The Committee foresaw the new grant reaching as many as three million children by 2005 (IDASA, 1997; Budlender, 2000: 128-9). Obvious problems with the proposal were that the state lacked the capacity to deliver the grant in many poor areas, that the value of the grant was so low that many beneficiaries would still be living in deep poverty, and that a huge number of poor children over the age of six would receive no assistance whatsoever.

The cabinet accepted the Lund Committee's proposals in early 1997, and submitted them to Parliament. The proposals were met with public furore. Critics sympathetic to the financial constraints proposed instead that the grant be set at R135 per child per month, paid up to the age of nine years. Haarmann and Haarmann calculated the total cost of the proposals on the basis of reasonable assumptions about the take-up rate (rising from 40 percent in the first year to 100 percent five years later) and administrative capacity. They showed that the total expenditure with the proposed changes would cost almost R3 billion less than the government spent on the existing State Maintenance Grants (IDASA, 1997: 6-7). The compromise reached in Parliament was a grant of R100 per month up to age six, without the requirement that applicants had to have tried to secure support through the civil courts already, and with a phased withdrawal of the existing State Maintenance Grants. The result was that the Child Support Grant was introduced from April 1998 at a level of R100 a month. It was subsequently increased, reaching R160 per month in 2003.

The Government defended this reform on the grounds that it freed resources for improved take-up rates in poorer parts of the country, and was thus egalitarian. But initially take-up rates rose slowly. By June 2000, fewer than 400 000 applications had been made for the Child Support Grant, and take-up rates were highest in the richest province, Gauteng (Adams, 2000: 3). Thereafter, however, take-up rates rose rapidly, passing two million in mid-2002 and nearly three million by July 2003 (Woolard, 2003: 11). In 2003, the government began to extend the Child Support Grant to older children, with the goal of covering children up to fourteen years old.

Given that the value of the old-age pension declined in real terms and the reform of child support meant that much smaller amounts were dispensed in the short-term, one might wonder what the Department of Welfare was doing to achieve the goals set out in the RDP and the Constitution. To be fair to the Department, it faced considerable administrative challenges. In 1996, the Minister of Welfare appointed a Committee for the Restructuring of Social Security, chaired by the Rev. Frank Chikane, to examine how to integrate the segregated social security systems of the apartheid period, how to improve management, and how to combat fraud and corruption (which cost an estimated 10 percent of the budget, according to press estimates). The Committee recommended that the welfare system be national rather than provincial in scope, with nationally-determined norms and standards. The Committee's work contributed to the drafting of a *Social Welfare Action Plan* in 1996 and a *White Paper on Social Welfare* published in early 1997. It turned out, however, that the action taken by provinces to weed out fraudulent claims had actually denied pensions to many legitimate claimants, resulting in adverse publicity and litigation (see, for example, *Mail and Guardian*, 9 June 2000).

The Department of Welfare also sought to develop a clear strategy. The 1997 *White Paper* emphasised that social welfare should be 'developmental' rather than simply dispensing 'handouts'. The Minister explained what this meant at the height of the furore over child support:

> 'In an ideal world, I too would wish to be able to spend more on social security in the immediate term. However, in a developing country such as ours, we have to balance competing demands and decide how to use scare resources in the most effective way. Ultimately, the most effective antidote to poverty is for all our people to have a meaningful stake in the economy. While administering cash transfers, the Ministry of Welfare, in collaboration with other ministries, has embarked on a number of projects aimed at giving a hand up to the many who remain excluded from the mainstream economy' (*Mail and Guardian*, 9 May 1997; see Budlender, 2000: 125, 130-3).

It was later revealed, however, that the Department had failed to spend most of the funds earmarked for poverty relief programmes.

One important shift was the extension of unemployment insurance (UIF) to cover workers in sectors that had previously been excluded. The Department of Labour extended the UIF to protect all workers in the private sector, including domestic, seasonal and other informal workers. The benefit schedule was also revised to provide higher proportional benefits for low-income workers than high-income workers. But these reforms did not bring public sector workers into the UIF.

Whilst the fundamental shape of the welfare system remained unchanged, the ANC-led government faced growing pressures for major reform that focused on the proposal that a Basic Income Grant (BIG) be introduced. The grant would assist the poor, and especially the unemployed, who were ineligible for the old-age pension because they were still young and who could not receive UIF because they had never contributed to the Fund. COSATU was at the forefront of demands for a Basic Income Grant. In 1999, an inter-departmental task-team was set up to investigate the issue and, in 2000, the Taylor Committee was appointed to report on the social security system as a whole (as we shall see further below).

One decade after the transition to democracy, therefore, the Post-Apartheid Distributional Regime remained much the same as it had been during the late apartheid era. Growth-path and labour-market policies buttressed the earnings of skilled workers, whilst doing little to improve (if not actually reducing) the prospects that the largely unskilled unemployed would secure employment. The welfare system provided generous assistance to old-age pensioners and limited assistance to single parents, but none to the bulk of the poor – whose poverty was the result of unemployment. The children of the poor did benefit from redistribution through the budget, especially in the form of free public education and substantially free public health care, but the real value of this public expenditure was muted by both the dire quality of much public schooling and the reality of high unemployment rates facing school-leavers (which reduced returns to schooling).

The divide that existed between white and African households under the early apartheid period continued to shift, separating growing numbers of better off African households from the African poor. The proportion of African households resorting to the private sector for the provision of welfare grew steadily. By 1997, almost one-fifth of the population was covered by private medical aid schemes, and coverage was closely related to income (South African Health Review, 1997: 82). Most employees – including the core working and intermediate classes – were covered by private sector retirement funds. Large numbers of African people in urban areas sent their children to semi-private, fee-paying schools. The provision of education, health and retirement pensions had become increasingly linked to employment.

Analysis of redistribution through the budget generally focuses on the government's expenditure on social policies, including especially welfare, education and health. But governments also distribute through other policies. There is thus what has been called a 'hidden' welfare system comprising subsidies and tax breaks to special interest groups, most of which include economically privileged members of society. Under apartheid, white farmers received massive support (as farmers do in most of the more advanced industrialised societies of the world). Some of these 'hidden' programmes are very indirect. For example, racially-discriminatory state procurement policies (one element in BEE) are difficult to cost, and it is difficult to know how to assess the value of the government investing large sums in arms deals or port development that have a strong BEE component. If these were taken into account, then the state budget would appear far more redistributive in racial terms but far less redistributive in socio-economic terms.

Nonetheless, post-apartheid South Africa did have an unusually generous and inclusive system of social assistance. It substantially reduced poverty among the elderly, the disabled and poor families with young children (Woolard, 2003). Its flaw was that the safety net nonetheless had a 'loose weave', and many poor people fell through the holes (Samson, 2002). As was the case with the Apartheid Distributional Regime, the post-apartheid public welfare system made no provision for the many poor people who were not old enough to qualify for the old-age pension nor young enough to qualify for child support. There was no provision for the long-term unemployed, nor for people who had never been employed. Samson (2002) calculated that social assistance reduced the poverty gap by about 23 percent in 2001. Even with a 100 percent take-up of the grants then in place, the poverty gap would be reduced by 37 percent only. The extension of the Child Support Grant to older children reduced further the poverty gap, but came nowhere close to eliminating it. The Apartheid Distributional Regime was premised on full employment, the Post-Apartheid Distributional Regime operated in the context of extremely high unemployment. The absence of any welfare net for the unemployed thus constituted a major problem.

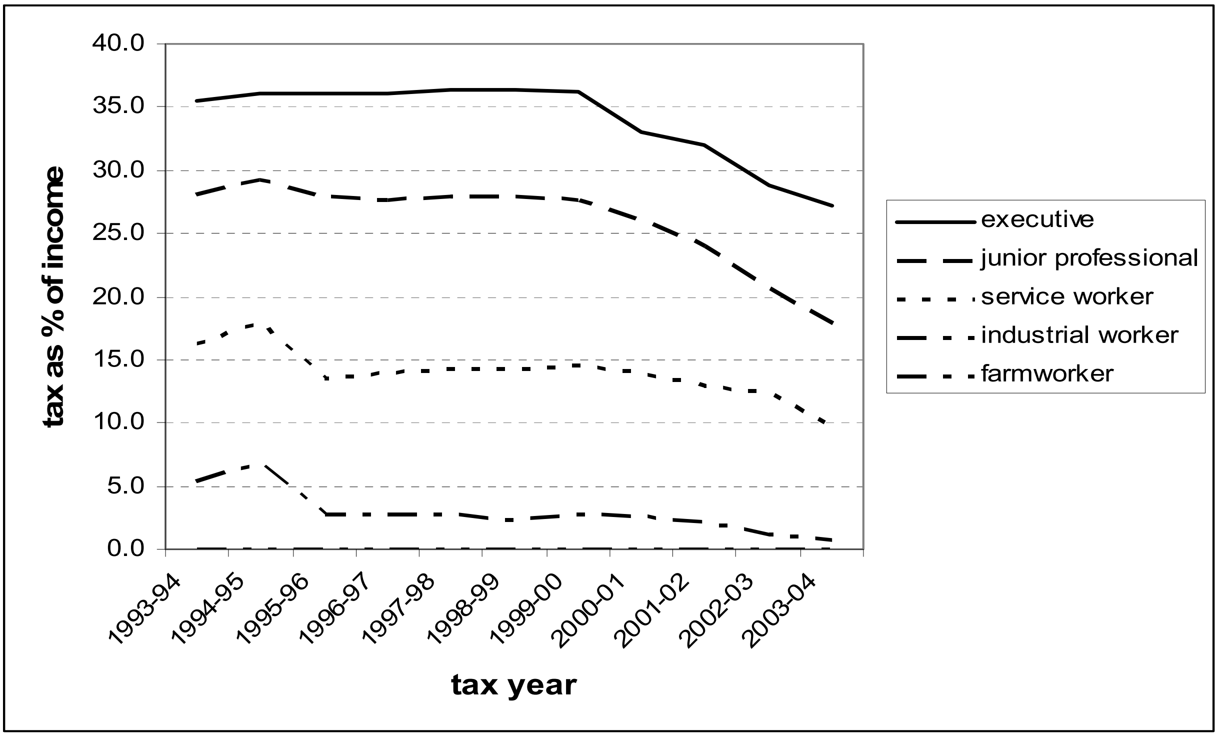
The semi-privileged position of politically powerful African groups – including the urban, industrial working class, sections of the intermediate class and the semi-professional class (especially teachers) – gave them good reasons to oppose a universal welfare system. If, as is likely, any radical welfare reform would require increased taxation on these classes, they would become subsidisers of the poor rather than the beneficiaries of redistribution from the rich. Perversely, therefore, the legacy of apartheid included the formation of a politically powerful, cross-racial coalition of classes, some a lot more privileged than others, with an interest in opposing radical reforms to the distributional regime.

3.5 AIDS

The AIDS pandemic was one challenge that the post-apartheid government failed to address in spectacular fashion, with the probable consequence of worsening inequalities (see Seekings *et al*., 2004). Despite the development of a comprehensive 'AIDS plan' in the early 1990s and its adoption by the Government of National Unity in 1994, the post-apartheid government failed to implement a coherent or concerted effort to combat AIDS (Nattrass, 2004). Instead, AIDS policy in the 1990s was characterised by scandal (e.g. the ANC's support for an 'AIDS cure' which turned out to be a toxic industrial solvent), confusion and hostility to using anti-retrovirals for prevention and treatment. Even after it had been shown that it probably cost the government more to treat HIV-positive children for their AIDS-related opportunistic infections than it would have cost to save the children from HIV infection in the first place (by providing pregnant HIV-positive women with a short course of anti-retrovirals), the government persisted in its refusal to implement a national mother-to-child transmission prevention programme. It took sustained legal action on the part of the Treatment Action Campaign to force the government to change its stance (*ibid*). It was only in late 2003, that the government (again, in the face of an imminent legal challenge and mindful of the forthcoming election) agreed in principle to roll out a national treatment programme.

3.6 Tax

Tax reform in the decade following democratisation similarly failed to be markedly pro-poor. This is clearest with respect to trends in the incidence of income taxation. Figure 3 shows the income tax due on salaries at five different levels, kept constant in real terms. A farmworker with a monthly wage of R400 in 1993 prices would never had to pay income tax. An industrial worker with a monthly wage of R1200 in 1993 prices should have paid just over 5 percent of his or her earnings in income tax in 1993/94. The effective income tax rate on a office worker (in the intermediate class) earning R2500 per month in 1993 prices was about 16 percent, whilst junior professionals (earning about R5000 per month) and executives earning about R10000 per month paid income tax of about 28 percent and 35 percent of their earnings respectively. After 1994, tax rates rose briefly, before declining steadily. By 2003/04, the executive was paying 27 percent of his earnings in income tax, the junior professional 18 percent, the office worker 10 percent and the industrial worker almost nothing. What is clear is that income tax cuts across this decade benefited all earners who were paying any income tax, i.e. anyone in the core working class and above.

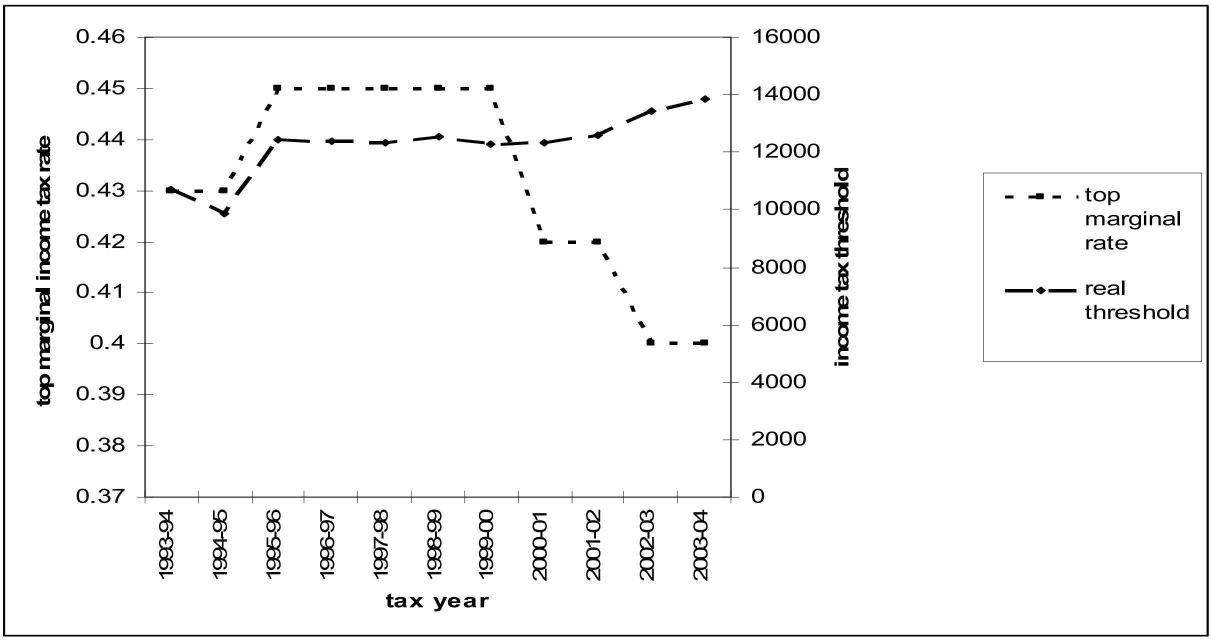


Source: Our calculations are based on tax rates supplied by the South African Revenue Service.

Figure 3: Income tax paid as a percentage of income, for different occupations and earnings (set in constant real terms), 1993/94 – 2003/04

Figure 4 adds to the picture, showing the top marginal tax rate (on the left axis) and the minimum income level at which any income tax was payable (i.e. the tax threshold, presented in real terms, on the right axis). The rich benefited from declining marginal tax rates, whilst the working class benefited from a rising tax threshold.

Overall, if we compare the Late Apartheid and Post-Apartheid Distributional Regimes, the continuities are at least as striking as the changes. Deracialisation has continued, but the basic features of public policy affecting distribution and redistribution have changed little. The poor continued to be disadvantaged by industrial and labour market policies that weaken the position of unskilled workers and contribute to unemployment. Whilst there is considerable redistribution through the budget, much of this is accounted for by education spending. Unfortunately the quality of schooling does not match the sums spent on it. The Post-Apartheid Distributional Regime was not a pro-poor one.



Source: Our calculations are based on information supplied by the South African Revenue Service.

Figure 4: Income tax threshold (1993 prices) and top marginal income tax rates, 1993/94 – 2003/04.

Figure 5 maps out how redistribution through the budget (discussed in this section) as well as growth policy strategies (discussed in section 2) have contributed to the Post-Apartheid Distributional Regime.

Overall, the poor did not prosper in the decade following democratisation. Inequality remained high, and perhaps even grew, whilst poverty probably deepened. Moreover, trends in inter- and intra-generational mobility as well as in morbidity and mortality due to AIDS suggest that the poor suffered enduring disadvantages in many ways. Children growing up in poor households were likely to be disadvantaged in terms of both human capital (i.e. educational attainment) and social capital (in terms of connections in the labour market). They were (and are) much more likely to spend their lives moving between poorly-paid, unskilled and often casual work and long spells of unemployment. They were also more likely to become sick and die, leaving dependents in an especially weak position. 'Churning' in a high unemployment labour market – and high rates of AIDS prevalence – meant that even people with regular, full-time employment could not be too confident of long-term income stability, but their prospects were much better than those from (and in) more disadvantaged settings. Some African people enjoyed rapid real growth in earnings and income due to upward mobility. But more room for African people at the top did not mean that all African people faced similar chances – or any chance – of getting to the top.

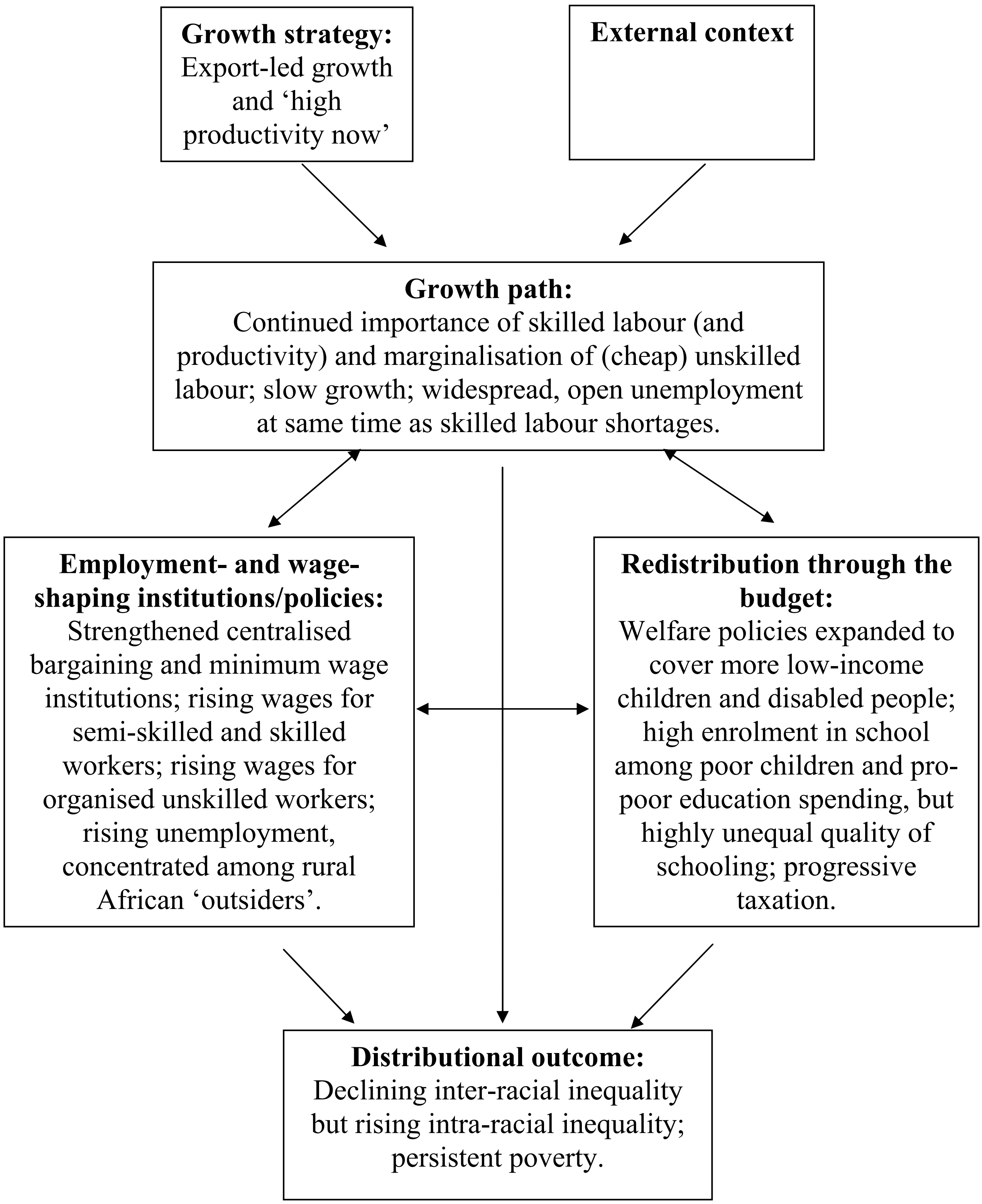


Figure 5. The Post-Apartheid Distributional Regime

4. The Politics of Redistribution

Why, then, were there not more pressures for a transformation of the distributional regime, rendering it more effectively pro-poor? In short, new patterns of stratification (in terms of opportunities for mobility as well as current position) only slowly led to the emergence of social attitudes or political responses that were clearly differentiated along class rather than racial lines.

4.1 Class Consciousness and Racial Identity

The first part of the explanation for this concerns identities and consciousness. It is very difficult to measure identities, not least because the salience of identity is often contextual and in surveys it is difficult to specify clearly any context. It is also difficult to link identities and attitudes to actual behaviour. Opinion polls suggest, however, that most South Africans continued to favour racial identities over class identities in the late 1990s. The 2000 *Afrobarometer* survey, for example, found that South Africans volunteered racial, ethnic or linguistic identities five times more often than class ones (a higher ratio than even Nigeria). But the apparently limited salience of class consciousness rather than racial identity does not mean that poorer people were content. South Africans identified job creation and crime as – by far – the most important problems facing the country and expressed strong discontent with the ANC-led government's performance on both issues. But there were few signs of a distinct consciousness among the unemployed (Seekings, 2002b). One reason for this is that state policies that might contribute to inequality were opaque. It was not easy for poor citizens to trace the links between the state's industrial and labour market policies and unemployment and poverty, even if these policies contributed to rising capital intensity and productivity rather than job creation (Nattrass and Seekings, 2001).

In the early 2000s, there were some indications of change in public attitudes. Mattes reports that surveys showed declining confidence in the economy and trust in government. Perceptions of 'relative deprivation' also seemed to be increasing:

> 'Even in 1995, despite one of the highest rates of income inequality in the world, only 32 percent of South Africans said they were worse off than others. This was largely due to the fact that black South Africans tended to compare themselves to other blacks rather than to whites. By

> mid-2000, however, this figure had increased sharply to 50 percent. In the same survey, 31 percent of blacks said their lives were worse now than under apartheid, up sharply from 13 percent in 1997' (Mattes, 2002: 32).

In early 2003, the Institute for Justice and Reconciliation included, in its 'Reconciliation Barometer', a question on South Africans' perception of the 'biggest division' in the country 'today'. The precise wording was:

> 'People sometimes talk about the divisions between people in South Africa. Sometimes these divisions can cause people to feel left out or discriminated against. In other circumstances it can lead to anger and even violence between groups. What, in your experience, is the biggest division in South Africa today?'

The options presented to the respondents were:

> '(1) The division between different political parties, like the ANC and IFP. (2) The division between poor and middle income/wealthy South Africans. (3) The division between those living with HIV/AIDS and other infectious diseases, and the rest of the community. (4) The division between members of different religions. (5) The divisions between Black, White, Coloured and Indian South Africans. (6) The divisions between South Africans of different language groups'.

The wording of the question might have led respondents to select either race (i.e. the fifth option, because of the reference to discrimination) or parties (i.e. the first option, because of the reference to violence). But only one in five of the respondents selected the race option, with a similar proportion selecting the political party option. More – 30 percent – selected the second, class option. The class option was selected by 29 percent of white and African respondents, and a slightly higher proportion of coloured and Indian respondents. Within each racial group, it was the most popular option. Responses do not seem to have been related to household income.

Overall, the available evidence suggests that racial identities proved resilient, even if there was also a growing consciousness of class (although it is unclear how identities and perceptions were linked, or how either were linked to electoral and other political behaviour). This resilience of racial identity was, in part, due to constant reinforcement by the ANC, both as the government and as a competitive political party. As the governing party, the ANC took political advantage of its pro-poor policies, and was adept at building new clinics and schools in areas where it was threatened electorally (such as the Eastern Cape in 1999). But it presented these achievements not so much as being pro-poor as undoing the discrimination of apartheid. Pro-poor policies were represented in terms of racial redress. The ANC played the race card effectively in elections (Davis, 2003), preserving its racial, cross-class coalition. The racialised discourse of 'two nations' shored up racial identities and racialised allegiances.

4.2 Voter Acquiescence

At the same time, voters could see that some of these policies were pro-poor. In 1999 and 2000, the ANC proved adept at marshalling its resources – both symbolic, as in the charisma of the inimitable Madiba (Nelson Mandela), and material, as in the construction of new clinics and schools – in order to ward off electoral challenges. In local government elections, critical independent candidates generally struggled to make headway against official ANC candidates even when the latter are regarded as having performed poorly. Even in provinces such as the Eastern Cape, where the record of service delivery has been appalling, the provincially-based, predominantly black-led opposition, the United Democratic Movement, managed to secure only 15 percent of the vote in 1999. Anecdotal impressions suggest that discontent with the government over unemployment began to become more politically consequential in the early 2000s, especially as the ANC elite came to be seen as feathering its own nest. But, again, the ANC responded astutely, raising social spending in pre-election budgets and promising pro-poor policies (including massive job creation) in its election campaigning in 2003-04. Policies that disadvantaged the poor, including labour-market and growth-path policies, were typically opaque, meaning that their effects were not evident to poor voters.

For their part, poorer ANC supporters remained loyal to the ANC, in part because they gave it credit for political as well as some social and economic change, and in part because of the lack of alternatives. Two features of the political system served to constrain change in the patterns of political activity. First, the ANC commanded sufficient patronage to keep most senior black politicians on board, denuding opposition parties of high-profile black leadership. The electoral system (at national, provincial and, less completely, local levels) provided the ANC leadership with one important source of patronage: places on the ANC electoral lists. Control over appointments in both state and parastatal sectors, and opportunities for both legitimate and illegitimate business activities, all served to keep aspiring black elites on their side.

Secondly, and in part a consequence, the major opposition parties were not attractive to disillusioned ANC supporters (Mattes and Piombo, 2001). The result was that the party system remained racialised. As Friedman and Chipkin put it, there was no class-based party competing for power; insofar as struggles over class occurred, they were within not between racialised alliances (Friedman and Chipkin, 2001: 11-12). The outcome of discontent was lower voter turnout rather than intensified electoral competition.

There is another possible explanation for the acquiescence of poor voters. Voters might have been making decisions about political allegiance and protest based not so much on their social or economic position at the time as on their expected future positions. Citizens' perceptions of opportunities for upward mobility might be expected to have shaped their identities and allegiances as well as their judgement on the legitimacy of inequality. The perception that economic liberalisation might promote a more meritocratic society might explain why poor voters in a number of new democracies have endorsed market reforms, even when those reforms have heightened inequality (Birdsall and Graham, 2000). In South Africa, there is evidence that expectations were important. Most poor voters remained loyal to the ANC, in part, because they were patient in waiting for their expectations of change to be fulfilled (Charney, 1995; Nattrass and Seekings, 1998). It is perhaps these voters' expectations of future improvements in their lives that was more important than their experience of hardship – and even deepening hardship – at the time. There were, indeed, good reasons for expecting this. At its height, apartheid entailed an unprecedented system combining state interventions in markets (especially the labour market, through the industrial colour bar, pass laws, labour bureaux, administration boards and magistrates courts) with massively unequal public spending on education, with the intent and result that black South Africans faced very different opportunities compared to their white counterparts. With the abolition of the pass laws and final vestiges of the colour bar and huge shifts in the incidence of public expenditure on education, the distribution of opportunities surely moved in a more meritocratic direction.

The most obvious site of struggle over class was thus *within* the ANC Alliance, between COSATU and the ANC itself. Some scholars (such as McKinley, 2001; Bond, 2000; and Marais, 1998) viewed both the ANC and COSATU as having 'sold out' or 'betrayed' the more radical objectives of the anti-apartheid struggle. The ANC's 'neo-liberal' policies – especially trade liberalisation, privatisation, fiscal austerity and cost recovery in urban services – were seen as being against the interests of the poor and working-class. Other scholars (such as Adler and Webster, 1999) saw South Africa as moving instead towards a class compromise, in which business did well but labour also secured gains, notably through labour market policy. The ANC itself argued that the poor benefited through social policy, with the social wage helping to make up for low (or no) wages earned in the labour market. In an earlier paper (Nattrass and Seekings, 2001), we agreed with *some* of the ANC's claims, suggested that there was a 'double class compromise' in South Africa, in terms of which business secured broadly pro-business macro-economic policies, the working class secured higher wages and the poor secured pro-poor social policies. The poor were said to exert some power through the ballot box. The weakness of this argument is that some of the 'gains' apparently made by the poor were actually gains won by other social groups. As mentioned in section 2 above, the big increase in pro-poor social expenditure in the mid-1990s was in education, where increased spending on teachers' salaries certainly did not result in matching improvements in the quality of schooling enjoyed by poor children. Increased spending on the poor reflected, in large part, a transfer to teachers. This points us to a central issue in the politics of redistribution in South Africa: the social groups with the political power to extract concessions from the state or capital were non-poor groups. Very few of COSATU's members were in the poorest half of the population in South Africa. Most lived in households with incomes above the median but below the mean, meaning that they were disadvantaged relative to the rich (mostly white) minority but they themselves enjoyed a position that was privileged relative to the poor. Some COSATU-affiliated unions – including the teachers' union, SADTU – had membership mostly in households with incomes above even the mean (see further Seekings, 2004).

4.3 Political Controversies

The limits to change in the politics of distribution in South Africa were evident in two political controversies in the early 2000s. The first related to the resurgence of so-called social movements, linked to anti-globalisation activists networks and mobilising around municipal services, including evictions for non-payment of rent or bond payments, disconnections of electricity and water supplies for non-payment, etc (see Desai, 2003; Lodge, 2003). These mobilisations were typically single-issue protests, and involved very localised constituencies. More importantly, they entailed conflict over the symptoms of inequality (i.e. an inability to pay for municipal services or for housing) not the causes of inequality (low quality public schooling, high unemployment, and government policies that undermine labour-intensive growth). These localised and ephemeral conflicts failed to cohere into a truly mass movement of any consequence. Friedman and Chipkin (2001) suggested that retrenched workers might grow into a radical social constituency, but this potential development was always constrained by the fact that unemployed people lacked resources and did not necessarily share the same views about what changes were needed.

The second political controversy related to the debate – or rather non-debate – over the Basic Income Grant (or BIG). In 2002, the government-appointed Committee of Enquiry into a Comprehensive System of Social Security for South Africa (the Taylor Committee) recommended that the government introduce a Basic Income Grant, once the administrative systems had been developed. The government initially delayed responding to the recommendation and sought to suppress debate (including during ANC conferences). Only in mid-2003, did the government finally come out against the proposed BIG, opting instead for an extension of the Child Support Grants and prospectively 'massive' public works programmes. The 'BIG Coalition' brought together a range of human rights and church groups, together with COSATU, but only the unions were capable of mobilising mass support. The unions supported the Basic Income Grant in part out of self-interest, not because union members would benefit directly from the grant but rather because of the indirect benefits, in that the grant would reduce the pressures on workers to support dependent kin and might also deflect criticism of the unions' demand for high wages (that arguably undermine job creation). But these indirect benefits were probably insufficient for the unions to threaten their alliance with the ANC. In post-apartheid South Africa, unions did not organise the poorest of the poor, but actually represented relatively privileged sections of society that did quite well since 1994 (see Matisonn and Seekings, 2003). A BIG would certainly shift South Africa in a more social democratic direction, but it did not enjoy the whole-hearted support of any sufficiently powerful political constituency.

As South Africa enters its second decade of democracy, electoral pressures might be expected to push the ANC-led government into pro-poor spending, but any such spending is likely to be discretionary (such as new schools, clinics or public works programmes) rather than programmatic (such as a Basic Income Grant). The uneasy balance of power between established 'white' business, aspirant 'black' business and organised labour is unlikely to shift enough to allow for major reforms in government strategy. Without policies that encourage the growth of low-wage jobs for the unskilled unemployed and promote the more efficient use of public spending on education, inequality is unlikely to diminish significantly, if at all.

5. Conclusion

The Post-Apartheid Distributional Regime displays strong continuities from its predecessor, the late Apartheid Distributional Regime, because the biggest losers under both have remained politically weak. The unemployed, and especially the rural poor without easy access to urban labour markets, were unable to use their electoral strength to secure pro-poor reforms, in part because it was unclear precisely what reforms would be pro-poor in the longer term. The powerful political constituencies in post-apartheid South Africa, on the other hand, were able to mobilise effectively and secure beneficial policies including lowered tax rates and raised wages and salaries for working people with skills. 'Deracialisation' meant that African workers secured the benefits previously won by white workers, but it did not mean that the opportunities facing the unemployed and especially rural poor improved. It is only by viewing the distributional regime as a whole that the contradictions between its different components become clear. Redistribution through the budget was unable to compensate for the inegalitarian effects of very high unemployment, which was itself in significant part due to policies related to the economic growth path and labour market. Whilst egalitarian and pro-poor in parts, the Post-Apartheid Distributional Regime retains too many inegalitarian features inherited from earlier distributional regimes, and has therefore not succeeded in reducing South Africa's high levels of income inequality.

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The Centre for Social Science Research

The CSSR is an umbrella organisation comprising five units:

The Aids and Society Research Unit (ASRU) supports quantitative and qualitative research into the social and economic impact of the HIV pandemic in Southern Africa. Focus areas include: the economics of reducing mother to child transmission of HIV, the impact of HIV on firms and households; and psychological aspects of HIV infection and prevention. ASRU operates an outreach programme in Khayelitsha (the Memory Box Project) which provides training and counselling for HIV positive people

The Data First Resource Unit ('Data First') provides training and resources for research. Its main functions are: 1) to provide access to digital data resources and specialised published material; 2) to facilitate the collection, exchange and use of data sets on a collaborative basis; 3) to provide basic and advanced training in data analysis; 4) the ongoing development of a web site to disseminate data and research output.

The Democracy in Africa Research Unit (DARU) supports students and scholars who conduct systematic research in the following three areas: 1) public opinion and political culture in Africa and its role in democratisation and consolidation; 2) elections and voting in Africa; and 3) the impact of the HIV/AIDS pandemic on democratisation in Southern Africa. DARU has developed close working relationships with projects such as the Afrobarometer (a cross national survey of public opinion in fifteen African countries), the Comparative National Elections Project, and the Health Economics and AIDS Research Unit at the University of Natal.

The Social Surveys Unit (SSU) promotes critical analysis of the methodology, ethics and results of South African social science research. One core activity is the Cape Area Panel Study of young adults in Cape Town. This study follows 4800 young people as they move from school into the labour market and adulthood. The SSU is also planning a survey for 2004 on aspects of social capital, crime, and attitudes toward inequality.

The Southern Africa Labour and Development Research Unit (SALDRU) was established in 1975 as part of the School of Economics and joined the CSSR in 2002. SALDRU conducted the first national household survey in 1993 (the Project for Statistics on Living Standards and Development). More recently, SALDRU ran the Langeberg Integrated Family survey (1999) and the Khayelitsha/Mitchell's Plain Survey (2000). Current projects include research on public works programmes, poverty and inequality.