

# **Master of Labour Policies and Globalisation**

**Universität Kassel**

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**Consideration of the form of the South African  
welfare state by evaluating the non-  
implementation of basic income protection**

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**Berlin  
2007**

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## **ABSTRACT**

This thesis investigates the form of the modern South African welfare state. It does this by considering a typology of welfare states of liberal, corporatist, social democratic, informal security and insecurity regimes. An historical assessment is done of the development of the South African welfare state from apartheid to the present. It considers the form of basic income protection available currently and evaluates the proposal for the introduction of a Basic Income Grant. An assessment is made of the political economy in class terms. This study suggests that the possibility of introducing measures of social democratic welfare provisions such as a Basic Income Grant is unlikely under the current balance of class forces in the country.

**KEYWORDS:** Welfare State    Social democratic    South Africa    Neo-liberalism    Class    Development state

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“ ... the democratic petty bourgeoisie want better wages and security for the workers, and hope to achieve this by an extension of state employment and by welfare measures; in short, they hope to bribe the workers with a more or less disguised form of alms and to break their revolutionary strength by temporarily rendering their situation tolerable.”

- Karl Marx and Friedrich Engels

“I’ve worked myself up from nothing to a situation of extreme poverty.”

- Groucho Marx

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## ***LIST OF ABBREVIATIONS***

ANC	<i>African National Congress</i>
BIG	<i>Basic income grant</i>
Cosatu	<i>Congress of South African Trade Unions</i>
EPWP	<i>Expanded Public Works Programme</i>
Gear	<i>Growth, Employment and Redistribution</i>
ISI	<i>Import Substitution Industrialisation</i>
OECD	<i>Organisation for European Economic Co-operation</i>
R	<i>South African Rand (€1 = R9.96)</i>
RDP	<i>Reconstruction and Development Programme</i>
SA	<i>Republic of South Africa</i>
SACP	<i>South African Communist Party</i>
US	<i>United States of America</i>

## **Introduction**

The advent and dominance of globalisation as a stage of capitalism where the traditional role and function of the state has seen more formidable attacks on it than ever before and the living standards of the working class are today constantly under threat. Globalisation signifies a period of capitalism where “the market should be allowed to make major social and political decisions ... the state should voluntarily reduce its role in the economy ... corporations should be given total freedom ... trade unions should be curbed and citizens given much less rather than more social protection” (George, 1999: 1). Part of the functions of the state, particularly in the post Second World War period in the advanced capitalist states of the OECD has been to shield the population from the harsh effects of capitalist competition. However, this shield has begun to slip in the OECD countries and the generous benefits and programmes available to the working class in the 1960s and 1970s are slowly being whittled away (Esping-Andersen, 1996).

The establishment of international monetary and trade regimes in the post-Second World War period developed rules that implicitly recognised that labour is a fictitious commodity that needs to be protected from the harshest verdicts of an unregulated world market. These global reforms opened the space for the establishment of mass consumption and developmentalist social compacts at the national level that we came to see as the welfare state in the OECD countries (Silver, 2003). The Fordist production system came under immense stress with relatively high structural unemployment resulting in a fragmentation of the traditional social structure with increasingly the break-up of the nuclear family and the movement to single female-headed households (Walter, 1989). Within the household state transfers are not evenly distributed to dependent household members (*ibid.*).

In the 1980s, in contrast, this paralysis was overcome through a sharp shift from labour-intensive to capital-intensive production and this put further pressure on the welfare state in these countries.

If the above are the broad effects of globalisation on the welfare states in the OECD countries, then the question arises as to what effect globalisation has on the welfare state regimes in the underdeveloped world. From the start these welfare states were not as developed as those in OECD and so we ask: have they developed towards the model of the advanced welfare state regimes or have they regressed?

South Africa as a middle income country stands somewhere between the OECD countries and the most underdeveloped countries. A radical political transformation occurred in 1994 when the minority white regime of limited democracy (apartheid) gave way to a universal franchise system.

The end of apartheid in SA in 1994 and the coming into power of the popular anti-apartheid resistance movement, the ANC, promised a period of prosperity for all who had suffered economically under apartheid. Apartheid was a system that deliberately excluded 80 per cent of the population from any social benefits by denying them citizenship in the land of their birth. For the remaining 20 per cent of the population, 15 per cent of who were classified white, enjoyed a level of social benefits that was comparable to that of some of the most advanced welfare state regimes of Western Europe. The apartheid political regime was necessary to develop a pool of cheap labour that could be primarily used to provide labour to the low-skill, highly labour intensive mining industry upon which the SA economy was based.

The ANC's political programme, The Freedom Charter, promised that all will share in the nation's wealth and that there shall be health and prosperity for all. In the 1994 general elections the ANC campaigned under the slogan 'A better life for all'. Their economic programme, 'The Reconstruction and Development Programme', was based on Keynesian economics and

promised an economic growth through redistribution strategy. SA adopted a new constitution in 1995, which has been hailed as the most progressive in the capitalist world. In it it states: "Everyone has the right to have access to ... social security, including, if they are unable to support themselves and their dependents, appropriate social assistance."

Thirteen years later this promise has failed to materialise. Welfare benefits have scarcely improved. The purpose of this thesis will be to examine the form of welfare state regime that exists in SA place it in an overall universal typology. Furthermore, I will consider the reasons as to why the SA welfare state regime has not been able to develop adequate poverty relief measures by focussing on the provision of basic income protection. A key consideration informing this analysis will be the nature of the global economy today and what possibilities a state like SA has in developing. Secondly, one has to consider whether SA has the wherewithal to provide a social security net for its people. Thirdly, I will consider the line-up of forces in favour and against the proposal for a BIG.

The case for a basic income grant rests on two main arguments. Firstly, there are the political and moral arguments for developing fully human capabilities of the population. Secondly, there are arguments that consider the economic benefits for the nation. The answers to these sets of arguments will tell us much about the nature of the current South African state and determine the parameters for change in the future welfare disposition in the country. I will argue that the peculiar class composition of the ruling party and the economic direction it has embarked upon militates against any significant improvements in the welfare state.

The notion of the modern state's powerlessness is not universally accepted. If one considers the degree of internationalisation of trade in terms of investment, then the current situation is analogous to the early 1900s. There is also a great deal of dispute of policy convergence in general and with regard to the welfare state in particular. The state has traditionally fulfilled the functions of providing the infrastructure for the efficient

functioning of the capitalist system. Current tendencies seek to undermine this role through, e.g. privatisation but the state still seeks to provide the optimal conditions for capital accumulation.

The state still maintains its power as can be seen by their voluntary implementation of international decisions. Certain components of the national state operate as necessary instrumentalities for the implementation of a global economic system (Sassen, 1999). What is clear is that the impact of globalisation on individual states varies.

There is a perspective that if political forces advocating improved social benefits and for these to be incorporated in a welfare state regime are sufficiently strong, states can be influenced to accede to these demands. I will argue that although this is generally true, states like SA that have adopted a neo-liberal course are much more inclined to reject these ideas.

There has to date been no attempt to analyse the SA situation in terms of the typologies indicated above. The BIG coalition following the Taylor Report from the Department of Social Development (2002) has made an attempt to provide some class analysis of the apartheid welfare state but no attempt been made to analyse the nature and form of the post-apartheid welfare state in terms of its class dynamics and lineage.

## **CHAPTER ONE**

### **Designation of Welfare Regime Types**

In a modern industrial society where the breakdown of traditional sources of welfare in the form of communal and familial forms of assistance to individuals in the event of a crisis, such individuals look towards the state for assistance. Furthermore, where Marx's dual liberation of the worker has occurred, viz. the worker has been freed from bondage to seigniorial powers but also freed from the means of production and thus has no other means of subsistence except by selling his or her labour power (Marx, 1990). Most workers who have been driven off of the land in one form or another do not have the option of returning to the land in the case of unemployment, sickness or injury. In this instance, the modern capitalist citizen has to either turn to the market, family, community organisations or the state for assistance. The welfare state acts to reduce the risks of impoverishment for common risks when people are no longer able to provide for themselves through the market or the family (OECD, 1981). The capitalist state in this case provides for market failure by restricting the market in order to facilitate the market by ensuring a supply of an appropriate labour form, i.e. healthy, educated, culturally moulded workers.

Esping-Andersen (1990) in his book 'The Three Worlds of Welfare Capitalism' sets out a typology of welfare state regimes. He argues that one should not be fixated on the actual amount that is spent on welfare provision as this could be used for the provision of a skewed socio-economic distribution or used to subsidise market-based provisions but be aware of the structural power of the state. He makes a distinction between residual and institutional welfare states where the former is only activated in the event of a market failure whilst the latter attempts to provide holistic and universal coverage for all of the state's citizens (ibid.). Esping-Andersen places social rights at the centre of his conception of welfare states and

argues that when social rights are made inviolable and are inherent in citizenship, they then allow the individual to be decommodified in respect to the market (ibid.). The process of the commodification of labour in the development of capitalism described above is thus somewhat relaxed by the provisions of the welfare state in that labour is not entirely dependent on the market for survival (ibid.). Decommodification thus entails the provision of welfare benefits that are an income replacement equivalent. This removes the stigma attached to means-tested benefits and secures the freedom for the individual to remain outside of participation in the labour market for as long as he or she deems necessary (ibid.).

The Marxist labour theory of value argues that all value is the product of labour. Under capitalist conditions this implies that the labourer has to exchange his labour power for a wage in order to survive. No value can thus be created, except in peripheral self-employed occupations, without the labourer becoming a commodity by entering into an employment relationship and selling that commodity (labour power) on the labour market.

One has to be careful in accepting Esping-Andersen's notion of decommodification. Irrespective of whether the worker who for one reason or another is not an active member of the labour market and seeks some kind of income replacement whilst not employed, that worker still has no independent access to the means of production. Such a person is thus still dependent on the sale of his/her labour power now or at some future point or the sale of labour of his/her family in order to survive. It can be said that such a person is part of the reserve army of labour. Furthermore, that person is dependent on the remainder of the working class selling their labour power to the capitalist in order to produce profits on which the entire edifice of the welfare state is based. There is thus an indirect dependence on the commodification of the labour of others. However, this temporary removal from the employment process is clearly beneficial to the individual worker and working class in general as they are able to live at a fairly high standard of living. This is important for those capitalist states where there is

low unemployment and the economy is dependent on skilled labour. In this case, it is beneficial to the capitalists as a class to preserve the unemployed worker so that it may employ him or her when economic conditions are more favourable. One can then agree that there is a partial de-commodification whilst the worker is not an active member of the labour market.

A typology is developed by Esping-Andersen that divides states into three forms of welfare state regimes involving a mix of market, state and family and where regimes are considered as a set of rules, institutions and structured interests that constrain individuals through compliance procedures (Gough, 2004: 22) as set out below:

- (a) Liberal – benefits are means-tested, generally quite low and are orientated to the poorest people in society and whose intention it is to drive labour back into the labour market and consequently provides hardly any de-commodifying effects. The states are of a minimalist type and acts to individualise risks and promote market solutions to these risks. The entitlements of citizens are discouraged in this scenario;
  
- (b) Corporatist – benefits are provided in a stratified way related to class and status so that there was some de-commodification but hardly any redistribution function as benefits are income related. These states emphasise traditional family values, are paternalistic and operate according to the principle of subsidiarity. There is a strong emphasis on the family being a means of support in times of need. It is only where the family's support fails that the residualism is activated; and
  
- (c) Social democratic – equality of benefits provided at a relatively high level is provided universally and thus goes a long way in de-commodifying labour. The state here acts to pre-emptively socialise

family costs and so promotes individual independence. Social problems are minimised and revenues are maximised as even high to middle income earners benefit and so feel an obligation to pay for the system. The promotion of full employment also acts to expand the tax base. Here there is comprehensive risk coverage. This system is based on a generous and comprehensive coverage of most social risks. There is widespread redistribution of wealth and a strong emphasis on the elimination of poverty. The state dominates the welfare nexus (1990; 1999).

The shape and form of the welfare state regime in its outline above is largely due to the kind of class compromises that occur. Esping Andersen notes the nature of class mobilisation, class coalitions and regime institutionalisation in determining the outcome of the state (2004).

Esping-Andersen's typology has been criticised by Gough (2004) *inter alia* because it focuses on income maintenance and the labour market and so ignores other important social programmes and in concentrating on decommodification it ignores other sources of well-being. However, despite these objections Gough still considers the typology to be valuable in that it analyses the welfare mix between family, market and state; it evaluates outcomes; it embeds welfare institutions in social reproduction; and clusters countries according to their development path (ibid.). His main objection to Esping-Andersen's typology is that it is Euro-centric in that it does not deal with conditions in the underdeveloped world where there are extreme threats to survival, exclusion of certain groups from welfare provisions, where economic development is critical for the well-being of the population and where there is no sharp distinction between institutions (ibid.). He believes that underdeveloped states are not "premised on a capitalist economy, formal labour markets, relatively autonomous states and well-entrenched democratic institutions" (op.cit. 33).

Instead of Esping-Andersen's typology Gough develops the notion of informal security regimes where there is reliance on the community and

family and insecurity regimes where a great deal of insecurity exists that prevent the establishment of informal mechanisms to provide welfare benefits (ibid.).

Some of Gough's criticisms of Esping-Andersen's typology are unjustified. It is fair to say that almost the entire world's economies are premised on capitalism if one understands capitalism as private ownership of the means of production, distribution and exchange and the freedom of the labourer to sell his/her labour power. Even where subsistence agriculture occurs, this occurs within a dominant capitalist environment where the hegemony of the market is established.

In situations where people have to rely on family to survive we can regard this as undeveloped welfare state regimes. Fine's (2007) criticism of Gough's typology that all states exhibit varying degrees of the welfare mix with the most wealthy being more dependent on the market to satisfy their welfare needs whilst the poor use the state's services while the really destitute have no safety net on which they can rely is quite valid. So even if an insecurity regime exists it still falls within the matrix of the broad categories of welfare states elaborated by Esping-Andersen.

Fine (ibid.) argues that the mix of welfare arrangements is critical for an evaluation of the welfare state and that the resultant mix will be unique to the type of welfare arrangement and to the circumstance of that country. While it might be true that the overall welfare mix of a country differs, the extent of reliance on the market, household or state can be still be deduced.

### **South Africa's Welfare Provisions**

The nature of the class compromise that sculpted the SA apartheid regime incorporated the white working class into a compromise with the white petit-bourgeoisie and the white bourgeoisie at the expense of blacks irrespective of class position. In Esping-Andersen's terms this would almost classically fit the description he gives for the social democratic model (1990). Education, health and housing benefits were biased towards whites,

and job reservation ensured that white wage earnings were protected. Labour policies were designed to protect the labour-market position of white workers. The industrial conciliation machinery provided wage protection, job reservation ensured that the least competitive white workers obtained employment, and unemployment insurance was provided on a temporary basis, i.e. for six months after becoming unemployed provided that one worked for at least one year prior to becoming losing one's job (Department of Social Development, 2002).

The SA income security arrangements for, which includes both contributory social insurance and state funded social assistance, was modelled on systems developed for industrialised countries with full employment as was typical arrangement in the OECD countries in the post-Second World War period (Frye, 2003).

The form of welfare state regime that existed in apartheid SA for the white population could thus be termed social-democratic in the that there was (racially exclusive) welfare coverage at a fairly high level but was tinged with a liberal form in that there was limited unemployment benefits that was intended to drive workers back to the market. There was thus some decommodification but this was not extensive in that the benefits were not at an income replacement level.

By contrast, black South Africans were subjected to extensive labour-market discrimination and disadvantage. Inferior education, influx control, the Group Areas Act, which separated the races into different residential areas, and a range of other instruments, undermined black incomes and consequently their social development. Given the chronic labour shortages that plagued low-wage sectors (notably agriculture and mining) during the post-Second World war period, the apartheid state was averse to providing

any alternative means of subsistence for African<sup>1</sup> job seekers. Instead, it relied on coercive labour legislation to channel (mostly unskilled) African labour where it was needed most (Department of Social Development, 2002).

In contrast to its limited welfare coverage of the black working-age population, the government provided a universal (albeit racially discriminatory) welfare net in the form of the old-age pension. This proved to be an important lifeline for poor African families, particularly from the 1970s onwards, as unemployment rose and as the real value of the pension increased. McGrath (1983: 78) calculated that limited redistribution from white to black South Africans probably occurred through patterns of government taxation and expenditure. In other words, even under apartheid, the final distribution of income was significantly more egalitarian than the market distribution of income (Department of Social Development, 2002).

South Africa's unemployment rate is estimated at 42 per cent, with more than 8.4 million people unable to find work (Statistics South Africa, 2002). Given the decline of labour intensive extractive industries such as gold mining since the 1980s the unemployment is not cyclical but structural.

The growth of an underclass in SA has been alarming with all state programmes that have targeted this problem having very limited success. Since 1995 we have seen the poorest 60 per cent of households' share of national income falling from 17 per cent in 1995 to 15 per cent in 2000, with the biggest decline amongst the poorest households (Statistics South Africa, 1995 and 2002). This decline in living standards was directly linked to the rise of unemployment and growing underemployment during this period.

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<sup>1</sup> The SA state divided blacks into Indians (those from Indian origin), coloureds (with mixed 'race' ancestry, local indigenous Khoi-San or south Asian origins) and Africans (indigenous people such as Xhosa, Zulu).

Growing joblessness has been accompanied by a shift to poorly paid, insecure survivalist strategies (Statistics South African, 2002). As a result, the average income from work declined sharply between 1995 and 2002. In 1995, 35 per cent of labours earned less than R1000 a month and 2002, 39 per cent earned less than R1000 a month, and their incomes had fallen by a third in real terms (ibid.). This has coincided with growing racial inequality in income distribution. While African household income fell dramatically between 1995 and 2000, the average annual income for white households rose to R158 000, a 15 per cent increase in real terms (BIG Financing Reference Group, 2004).

There are 10.2 million people out of a population of 44 million in 2004 who live in poverty whilst twenty-two million or 53 per cent of South African people live in the poorest 40 per cent of households. The stubbornness of high degrees of poverty condemn the vast majority of South Africans to a life below the international poverty measure of US \$1 per day while almost two-thirds of all children suffer under conditions of poverty (ibid.).

Despite the decline in discrimination towards the end of the apartheid years, inequality remained stubbornly high. In the last year of apartheid in 1993, the poorest four deciles of households, equivalent to 52 per cent of the population, accounted for less than 10 per cent of total income. While the richest decile of households, equivalent to just 6 per cent of the population, captured well over 40 per cent of total income (ibid.).

High and persistent inequality is one of the enduring legacies of apartheid but its determinants have shifted over the apartheid period. Whereas inequality was initially driven by the gap in racial incomes, this situation changed over time as African workers advanced up the occupational ladder and as unemployment increased. By the end of apartheid, the gap between the incomes of the employed and the unemployed had become a significant driver of inequality.

The government established the Taylor Committee, to consider the overall welfare arrangements of the state and it concluded that:

“... unemployment is unlikely to fall dramatically over the medium-term and that existing levels of destitution as a result of income poverty seriously compromise other social policy interventions of government” (Department of Social Development, 2002: 22).

The dire state of poverty means that there is a trade-off between basic service and other social requirements. When parents are unable to afford both food and education, the latter is sacrificed leading to long term negative consequences for the poor.

This welfare provision is critical to addressing the dire state of poverty in SA, where 40 per cent of the population are unemployed and where the Gini co-efficient of households was 0.608 in 1995 and 0.669 in 2000 (Simkins, 2004). This represents both a growing level of inequality as well as high absolute inequality as SA was the third highest in the world at this stage, and to providing the kinds of benefits the ANC’s programme included. The social instability in SA marked by exceedingly high levels of criminal activity would not exist had the welfare state expanded to provide basic income protection. Yet roughly half of South Africa's people live in poverty (Primo, 2002). Nearly half of all poor people live in households that have no access to social security.

It would appear that the policies and programmes of the current government do not have the capability of providing the comprehensive protection promised by the country’s constitution as they are not designed to assist people of working age who are unable to provide for themselves as a result of protracted unemployment (BIG Financing Reference Group, 2004).

## **CHAPTER TWO**

### **Why the Basic Income Grant?**

The persistently high levels of unemployment and poverty in SA means both that the existing social security system has to support more people and that other forms of social support for the poor are coming under greater stress (ibid.). In particular, the lower paid sections of the working class have to utilise their meagre incomes to provide for the vast numbers of unemployed. Yet, the income of this group has also diminished with dropping in the national income from 58 per cent in 1992 to 51 per cent in 2002 and to 49 per cent in 2006 (SA Reserve Bank, 2007). Incomes of working people and social structures as a whole are under tremendous pressure.

With the high degree of poverty, unemployment and inequality described above and the constitutional obligations and the formal political commitment of the ruling party to alleviate the conditions of the poor one would expect that some form of basic income protection would be provided by the state. However, this is not the case.

The most significant form of income redistribution in SA is through the state old age pension. In this system a means-tested pension of R850 per month is paid to those above sixty years old. Pensions comprise a major source of income for the poorest 40 per cent of households. In the last years of apartheid the de-racialisation of pension benefits was achieved through large increases in the real value of the pension paid to Africans. However, since 1993 the real value of the old-age pension has declined by an average of about 1,5 per cent per year, or a total of about 20 per cent over the period until 2000 (Department of Social Development 2002). Furthermore, the level of pensions is equivalent to two-thirds of the Poverty Datum Line

in SA. More often than not, it is one elderly mother who has to support two or three generations of children with this sum of money (Lund: 2004).

Social grants have brought relief, but only to specific sectors of the population. Unemployed people without young children or an old age pensioner in the family do not benefit from these transfers. Even to access these social services requires some basic income to cover transport costs, for example.

SA has a structural unemployment problem that does not meet the assumptions of the apartheid welfare system, viz. that the employed could support themselves and that unemployment was temporary (Department of Social Development 2002). In the post-apartheid period which was characterised by growing competitive globalisation pressure, the prospects of reaching full employment under the current capitalist accumulation regime seem bleak. A large proportion of the economically active population is forced to live outside of formal employment structures and so the trickle-down effect of economic growth has been inadequate to address poverty (Fine, 2007).

### **A Basic Income to Provide for Human Development**

If we understand the purpose of welfare to be the increase of capabilities and consequently human development, then the provision of social policy should aim for going beyond providing a last resort of the most desperate by establishing a basis for a fully social citizen. This can partly be achieved by promoting economic development. The following section will consider whether the introduction of the BIG will succeed in bringing about an improved economic position for the majority of South Africans and so increase the national welfare.

## **The social advantages of BIG**

The basis of any given polity should be the maximisation of the good of the citizens of the said polity. A macro-economic policy should aim to give effect to these objectives. The success of an economic policy should not be measured by the economic growth of a country but by the aims of that policy, which are enhancing the quality of life, the freedoms that we enjoy and becoming fully socially integrated citizens (Sen, 1999). Economic growth should not be seen as an end in itself and its results depend on how the growth is to be distributed in society (ibid.). This can be measured by considering the extent to which a given society is able to meet its citizens' needs and wants. Needs can be considered to be those issues that a human requires to satisfy his/her prime necessities without which some serious harm will come to him/her. These needs extend beyond mere survival and include the ability to live a fully social life. These needs can be termed 'universal satisfier characteristics' and are:

“adequate nutritional food and water; adequate protective housing; non-hazardous work and physical environments, appropriate healthcare; security in childhood; significant primary relations; physical and economic security, safe birth control and childbearing; and appropriate basic and cross-cultural education” (Gough, 2004: 18).

Sen (1999) argues for a conception of development as freedom that aims to expand substantial freedoms. By this he refers to the removal of constraints that limit the effective expression of individual initiative and social effectiveness (ibid.). Poverty, poor economic opportunities, social deprivation and neglect of public facilities are major sources of constraint (ibid.). Sen goes on to argue that inadequate income has to be seen as 'capability deprivation' that is not the only means of such deprivation but the primary cause (ibid.). Illiteracy, poor health, hunger and malnutrition

prevents people from enjoying a fully human life and provides less freedom to participate in social life (ibid.).

In all societies but, moreover in modern capitalist societies, there are some members of society who are unable to work because of their age and/or physical condition and there are those who are willing to work but are unable to find work. Capitalist societies require the physical reproduction of the worker in order for the system to continue function so some of the social product is normally used for the maintenance of those unemployed persons not participating actively in the labour market. This is because the labour needs of capitalism are not static and given changes in investment demand and production, there are ebbs and flows in labour demand. Normally unemployed benefits are granted to those who show a willingness to work (Esping-Andersen, 2002).

Unemployment, besides depriving people of income through blocked access to the labour market, also has other negative effects such as social exclusion, reduced self-reliance, low self-confidence, psychological disorders and physical ill-health (Sen, 1999). Extreme poverty does not only cause these severe effects but also makes those suffering it extremely vulnerable to violation of other forms of freedom that force people to perform unpleasant work or to live in areas where they would rather not (ibid.). The provision of unemployment benefits should not be seen as the sole means of alleviating these problems but the existence of some income is crucial to providing a sense of self worth and to providing a basis for achieving greater degrees of freedom (ibid.).

Unemployed benefits are normally of two types: a make-up guaranteed income or a basic income grant (van Parijs, 1993). In the former the benefit is determined if household income falls below a certain threshold and then a transfer payment is made to that household up to a certain level. This type of payment has the tendency to stigmatise recipients as it is a means-tested type of benefit (Walter, 1989). It also has the effect of creating a *de*

*facto* minimum wage because no-one will accept a job below the level of the guaranteed income. This is because there are associated costs with employment that are not encountered when one stays at home such as transport, clothing and child-care costs. If the level of this benefit is set at a high level, it will reduce the number of persons willing to work, particularly at lower skill levels. This will have the effect of reducing the active labour force, thereby placing a greater tax burden on those economically active. Resentment between those employed and those unemployed will result.

### **How do we Pay for a Basic Income Benefit?**

One way of implementing a basic income grant is the negative income tax model propounded by Milton Friedman. In this model each citizen is allocated a specific amount and a flat-rate tax system would apply. In Friedman's case, he advocated a system in which a specified proportion of unused deductions or allowances would be refunded to the taxpayer but wanted to eliminate all other welfare benefits forcing citizens to rely solely on the market for these arrangements (Pauly, 1973). To avoid the risk of fraud in under-reporting income means that this tax involves considerable administrative expenses. One way of avoiding this is to apply a tax credit that is reimbursed once income reaches a specific mark (*ibid.*).

A negative income tax, in reality, only provides income to the poor. Because of the recovery of the negative income tax through normal taxation, wealthier members of society gain no benefit from this system. The negative income tax mechanism is similar to the basic income grant in that there will also be redistribution from high income earners to low income earners (van Parijs, 1993).

A basic income grant would be a universal benefit to all adults in society. This will lessen the power of the head of the household and redistribute income within the household (Walter, 1989). Unconditional cash transfers will have a greater positive impact on human development where vulnerable groups are sufficiently well-informed to make considered choices about

health and education. Such transfers may also have indirect benefits such as empowerment of women and socially excluded groups through increased control of household finances (DFID, 2006).

A general improvement in the economic well-being of the household will result because of additional income and this will enable that household to satisfy more or all of its basic needs, depending on the level of transfer (van Parijs, 1993). The level that each society can afford to grant in the form of a basic income is determined by the stock of capital and labour prevalent in that society, the level of technological development and the preferences of the society's citizens.

No stigma is attached to the basic income benefit as it will be universally granted. Furthermore, it will not discourage anybody from seeking work as the income so derived will be added to the basic income grant. There are other advantages to administering the benefit in this way: there would be no added bureaucracy for administering the means-testing and the benefit could be recovered from higher income earners through marginal tax-rates (ibid.).

The basic income grant could be funded through indirect or direct taxation, either progressive or proportional. It will act to improve productivity as the wage rates for unattractive work will increase and lower the wage rate for well-paid work. This is because there will no longer be an incentive to pursue those types of jobs as one's basic needs have been met. The question each society faces is whether to use this improved productivity to raise the general standard of living of the population through increasing the basic income grant or channelling it into the hands of the owners of capital.

We can consider the choices available to a society in providing a basic income grant by considering the Laffer Curve<sup>2</sup>. The theory behind this curve

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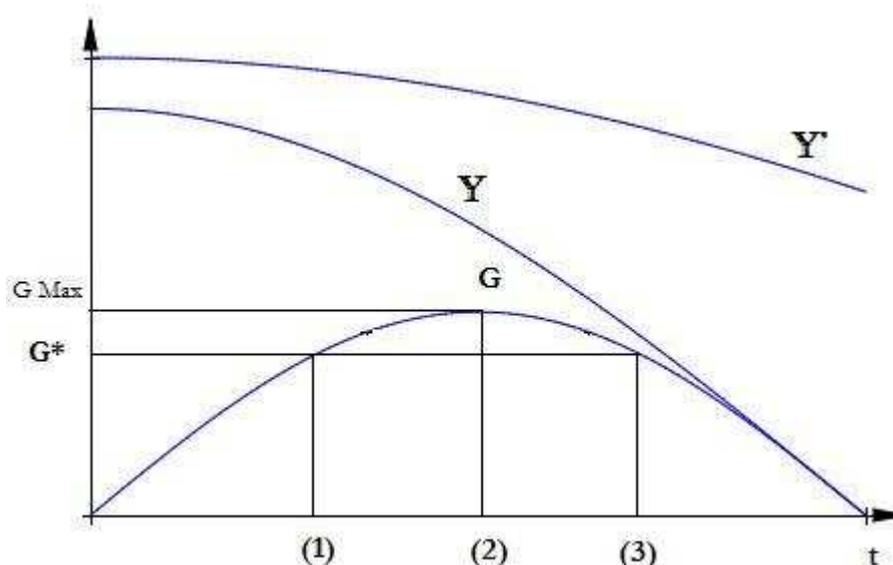
<sup>2</sup> The Laffer curve is a static model that it models an economy with identical productive capacity under two different sets of tax rules. In a dynamic economic

considers the optimum tax rate that a state can impose while bearing in mind the tax elasticity of the population. The underlying notion of the theory is that the higher the tax rate, the less incentive there is for people to engage in income generating activities as this will mean that a greater share of their income goes to taxes.

The basis for a basic income policy could have the following objectives:

- (1) Maximise growth with maintaining a minimum level of the basic income grant;
- (2) Maximise the absolute level of the basic income grant;
- (3) Maximise the tax rate and so maximise the relative level of the basic income grant;
- (4) Maximise equality by maintaining the relationship between the basic income grant and the total product while maintaining the grant above a certain minimum level (ibid.).

**Figure 1. Laffer Curve**



model, economic growth is a relatively general phenomenon, and one would therefore expect tax revenue to increase over time even if the tax regime remains identical. One also assumes that there are uniform tax rates across all income ranges; no further state expenditures besides the basic income grant and the absence of a capital stock constraint.

- t – uniform tax rate
  - Y – taxable social product
  - Y' – total social product
  - G – aggregate basic income grant
  - G\* - level of G covering everyone's basic needs
  - GMax – maximum sustainable level of G
  - 1 – Growth-oriented
  - 2 – Basic income maximisation
  - 3 – Maximising relative level of grant
- (Source: van Parijs, 1993)

In the above diagram the Y-curve represents the total product. The G-curve represents the total tax yield. The shape of the curve shows how labour will respond to changes in the tax rate. So we can see that increase in the tax rate will lead to lowering the supply of labour and the corresponding Y-curve will fall. Increasing the tax rate will result in a corresponding increase in the basic income grant but will simultaneously lead to a lowering of the labour supply. Gmax is the optimal point of the tax rate where the incentive effect and the distributive effect will be in harmony (van Parijs, 1993).

If we adopt (3) as our objective, then we will succeed in satisfying everyone's basic needs but this will not be the maximum level of the basic income grant. This will simultaneously ensure that unpleasant work is discouraged and, in so doing, shorten the working day and improve the quality of work (ibid.). A general rise in productivity that results will shift the entire G-curve upwards and so raise the level of the basic income grant. The continuous raising of this level will lead to a steady diminishing of Y-curve that is not utilised for the basic income grant. At the end of this process the G-curve merges with the Y-curve, shortening the working day to such an extent that work becomes synonymous with free time and so eliminating the notion of work completely (ibid.). For this scenario to be realised the need for constant economic growth has to be suppressed or else the Y-curve will continue to rise meaning that basic income grant will

never expand to include the entire social product (van der Veen, 1991). For this objective to be achieved, then a limitation on the growth of material goods has to be accepted.

Sen talks about 'support-led process' that improves the quality of life, mortality rates in particular, "through a process of skilful social support of health care, education and other social arrangements (1999: 46). In the countries that he analysed he observed that there was a "rapid reduction in mortality rates and enhancement of living conditions, without much economic growth" (ibid.).

High tax rates, as shown above, may result in production occurring outside the formal economy. The accumulated product in this process will not go towards increasing the basic income grant and so will lead to greater inequality in society (van Parijs, 1993).

Selecting point (1) on the tax curve will ensure that production is maximised but should ensure that the effort employed in production is not raised as this will never allow the growth of productivity to be converted into the basic income grant.

Should we adopt (2) as our objective, then the quality of free time is maximised at the expense of smaller proportion of free time, or alternatively, poorer quality working time (ibid.).

An objection may be raised to the above conception that argues that it is unfair for those willing and able to work to subsidise those who are able but are unwilling to work. There should thus be a reduced benefit payable to those who opt out of working. This argument mirrors the pattern in corporatist and social democratic welfare states, viz. that redistribution should be from those fortunate enough to have work to those unfortunate enough not to be able to find work and not from those who are industrious to those who are lazy. However, if one considers the nature of welfare

states, then having employment is not so much a choice but a privilege as there are both status and financial benefits attached to employment (Walter, 1989). This is especially true for a country like SA with an above 40 per cent unemployment rate. The exclusion of those willing to work from employment is of far greater concern than protecting labour parasites.

Secondly, there is much unpaid work that occurs in the economy particularly in the realm of domestic reproduction. Looking after the elderly or the children should be considered a socially desirable form of labour. The intention cannot be to 'punish' these persons by granting them a reduced basic income grant. If one accepts that there are certain types of unpaid labour that are socially desirable, and which should be compensated by society in the form of a basic income grant, then to weed out desirable and undesirable behaviour by some form of means-testing adds an additional bureaucratic burden on society that could be more costly than providing the benefit universally.

Thirdly, income levels in the world today vary widely. Thus one's income is not solely dependent on the effort one employs in labour but on other factors such as the level of technology of society, the average price of work that is determined by trade union pressure, the general standard of living in society, *et cetera*. Thus when there is little correlation between one's earnings and one's efforts it cannot be argued that the basic income grant should be reduced for some.

Fourthly, the extent of marketisation of social goods today through the incorporation of common goods into the market and so preventing the sustenance of a livelihood outside of the market condemns those who receive the reduced benefit to poverty or starvation depending on whether the reduced benefit is set at a very low level.

A further objection to the basic income grant is that it will reduce labour supply. Here it is important to consider the differentiated class responses to

an increased tax rate. The most important consideration is not the increase of tax rates *per se* but the resulting marginal income. A proportional tax on income will result in the aggregate taxed income increasing but the extent of the increase will depend on the elasticity of labour supply. This will partially be determined by the extent of excess labour supply. In conditions of high unemployment we can expect that although labour supply may reduce, this will not affect the overall level of aggregate income because of a greater take up of employment for those who would have lost their social incomes in a means-tested scenario. One finds that those leaving employment are not the ones paying large amounts of tax (Walter, 1989). In experiments conducted in the US it was found that mainly married women left employment (ibid.). There might thus be a reduction of labour supply at the high income levels and an increased labour supply at the low income levels. The effect on the overall labour supply for specific occupations would then depend on the nature of that country's industrial structure. The willingness of people to accept socially rewarding jobs at relatively low income levels would increase as the additional income from these jobs are not as important given that their basic needs have been met. We can see proof of this phenomenon in the willingness of the wealthy to perform charitable work for no or little pay because they are secure in that their basic needs have been met.

Private households need capital investment in order to be productive. The needs of labour reproduction and rest require much unpaid domestic activity (Pahl, 1984). It was found in a study that underinvestment in households led to low unpaid activity rates (Walter, 1989). A basic income grant would provide the necessary income to stimulate activity that will improve the chances of those family members becoming economically active (Pahl, 1984). However, this activity would not generate tax revenue to fund the basic income grant but would improve the quality of life of low income households (Walter, 1989). Health, improved nutritional consumption and improved education are what additional unconditional transfers are spent on and are distributed throughout households more equitably (DFID, 2006).

There is one effect that cannot be quantified in a corporatist welfare state environment: the extent to which people will be less incentivised to work because their welfare benefits are not income related. This could result in a movement from high paid to low paid jobs, which will reduce the tax base. A switch from an income-related welfare structure to one with a basic income grant benefit may result in reduced labour supply and consequently reduced taxable income leaving less of the social product available for the basic income grant.

A very serious objection to the proposal arises in today's globalised world economy where capital is highly mobile and increased tax rates may result in them exiting the country. The danger of capital flight in some industries where capital is highly mobile and where there are not great sunken costs such as clothing and textile manufacturing, at even relatively low tax rates is high. Such flight will reduce the domestic capital supply and so threaten the level of the basic income grant.

One way of responding to the above danger is to restrict capital movement. This will have the effect of compelling capital to remain domestically but will also have the effect of limiting future capital supply as foreign capital seeing existing capital trapped and unable to extract profits will be reluctant to invest additional capital, fearing the same results. Its effects might therefore have a short-term beneficial effect for the country but in the long-term could undermine that country's development.

The state could realise some or all of the revenue by taxing stigmatised or 'dirty' industries. This could be similar to the kind of measures that are adopted in Kyoto Protocol on climate change where polluters are expected to pay for their sins<sup>3</sup>. The extent of taxation possible from this source would vary from country to country. The effect of such a tax could also induce

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<sup>3</sup> I am not advocating the Kyoto Protocol mechanism that is based on a cap-and-trade system that uses market principles. All I'm arguing for is that it is possible to tax industries that are deemed to have harmful effects on society.

such companies to change production to less polluting forms and so the taxable revenue from this source could reduce over time.

There are ways of overcoming this response: by taxing other forms of revenue besides profits such as wages. Of course, the transference of the tax burden onto the shoulders of the working class could prompt social and political resistance, making it unattractive for the government dependent on the conjunctural political situation.

One could also grant certain incentives for new capital investment. However, an increased tax burden on wages will lead to increased labour costs as workers press for higher wages to compensate them for the loss of earning power. Furthermore, a reduced labour supply for certain jobs will compel employers to offer higher wages in order to attract the necessary skilled labour. Higher wage costs will give employers the incentive to move towards more capital intensive production further reducing employment and hence taxable income (Przeworski and Wallerstein, 1982). The extent of capital flight depends on the industrial structure of the country (whether the economy relies on extractive industries), the effect of the tax burden of the company, the ease with which domestic skills could be replaced, the level of sunken costs, the extent to which the company relies on an internal market and the proximity of that country to its markets. However, despite these points, it has to be said that this is a real danger for most of the world's economies, particularly those non-OECD economies that do not rely on skilled labour.

### **The Effects of the Basic Income Grants on Various Social Classes**

Whatever the intrinsic merits of the basic income grant for society as a whole, its success depends on the extent of political mobilisation of the sections of society that will benefit from the introduction of such a basic income grant and the alliances they are able to forge with other classes. An increased tax burden on employers may result in an individual response

such as capital flight or collective action in the form of pressurising the state to withdraw or reduce the basic income grant and so reduce the pressure on profitability.

The other group that will suffer as a result of the introduction of the basic income grant would be high income earners, the labour aristocracy<sup>4</sup>. This group would be opposed to a basic income grant if the personal tax burden rises thereby reducing their post-tax income. The extent of resistance of this group depends on their relative economic and numerical weight in society, their political consciousness as well as how well they are organised. When this group is organised in trade unions or political parties, then this becomes a natural organising terrain for opposition to the basic income grant.

Those who stand to benefit from the basic income grant are, by definition, the most disempowered sections of society for if this was not the case the rest of society would not have to care for this underprivileged group. The main beneficiaries would be the unemployed, housewives, the infirm, existing welfare recipients and the precariously employed. As can be seen, this is a diverse group including within the housewife category a multi-class group. In and of itself it is extremely difficult to organise such a group as one of the key problems is financing such an organisational effort and the nature of this group means that they are the sections of society with the least amount of disposable income. The success of an organising initiative will depend to a large extent on whether the organised working class in the trade unions or associated workers' political parties are able to see a benefit in this proposal and mobilise in favour of it. Such a mobilisation would have to reach a high level in order to overcome resistance to it by the capitalists.

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<sup>4</sup> I don't subscribe to the view of Lehlere (2005) that Cosatu represents this labour aristocracy. Instead I agree with Jansen that "... trade union members are not however, a labour aristocracy acting as the social base of the trade union bureaucracy. Socially most organised workers form part of the impoverished black working class with strong family and community relations with unorganised workers, the unemployed, youth and even the rural poor (2004: 11)."

In South Africa it is the employed workers who have to support the unemployed (Lund, 2004). There is a direct experience of poverty that could be altered by increased income in the form of a basic income grant.

What is important for the employed working class to understand is that the existence of a two-tiered labour market has dangers for it. An informal, poorly-paid and precarious sector places downward pressure on the relatively good wages and terms of conditions on the better paid formal sector. Countries where such a division of the working class exists such as Brazil and South Africa have very high crime rates. More prosperous workers constantly have to live in fear that their property will be stolen. This situation of insecurity is not conducive to high productivity nor is it sustainable in the long run. An alliance of the formal workers with those requiring the basic income grant is in the long term interest of the employed workers. The provision of the basic income grant to precarious workers will give them with security, financial bases and enlarged range of choices (Walter, 1989). This added security makes it easier to organise these workers into trade unions, thus enlarging trade unions' shrinking membership and increasing the latter's societal leverage.

## **CHAPTER 3**

### **South Africa's Political Economy**

#### **The International Context**

The state-centred, Keynesian approach to development in the developed economies was altered by the 1980s as US policy changed to an approach that advocated a utilitarian minimalist state in response to severe competitive crisis that was affecting the American economy (Arrighi *et al*, 2003). The Carter Administration adopted an expansionary monetary policy that depreciated the US dollar and provided the financial system with the liquidity necessary for foreign investment. Following the second Oil Crisis a change in policy was observed with tightening monetary and fiscal policy, easing of wealth taxes, and freeing the capital markets from regulation. Effective demand in the USA was reflatd whilst the underdeveloped world suffered a choking off of available capital. The Mexican debt crisis spelt a decisive moment in the movement of capital. These measures caused the US state to compete internationally for capital to finance its trade and current account deficits and balance of payments problems, leading to a spike in international interest rates and a reversal of capital flows (ibid.).

The 1970s marked the end of super profit era of the post-WWII boom as investment in the manufacture of commodities lost their allure and in capitalism's constant search to overcome the profitability crisis, new sources of investment were sought. Finance capital increasingly moved out of manufacture into speculative areas.

Only a few economies were able to prosper under these new conditions of capital accumulation. Particularly effective were the 'Asian Tigers', which had in the preceding period invested heavily in education and protected nascent industrial industries and were now able to take advantage of the

US's demand for cheap industrial goods (Sen, 1999). The 'Asian Tigers' balance of payments improved allowing their industries to be competitive internationally whilst the rest of the underdeveloped world suffered balance of payment difficulties making it difficult to compete in the capital and industrial markets (Arrighi *et al*, 2003).

The collapse of the Soviet bloc in 1989 removed a political obstacle to the spread of the 'Washington Consensus'. Now there was a unipolar world and the previous developments in the capitalist West could now be promoted more vigorously. State centred policies were discredited and the demand was for the opening up of all economies to the penetration of goods and capital from the developed world (*ibid.*). The possibilities for the development of underdeveloped regions of the globe were setback severely unless such countries could compete effectively in either the capital or commodity markets. This would determine whether they are able to (i) generate the necessary wealth for an improvement in the living standards of their populations and (ii) distribute that wealth to reduce international and intra-national inequalities.

Spatial fixes have relocated the social contradictions of mass production in the world today but they have not relocated the wealth through which high-wage countries historically accommodated those same contradictions (Silver, 2003). Underdeveloped countries such as SA has managed to appropriate wealth to an extent in the hands of an indigenous bourgeoisie but this is highly concentrated and has not succeeded in improving the general development of its population.

### **SA's Macro-economic Policy**

As stated above, the first post-apartheid government adopted the RDP as its macro-economic programme. Within two years this weak Keynesian programme was dropped in favour of the Gear strategy. Prior to its adoption there was intense political debate between rival macro-economic strategies.

On the one hand, the main trade union federation, Cosatu, favoured a neo-Keynesian policy entitled *Growth through Redistribution*. On the other hand, capital argued for a classical neo-liberal policy called *Growth for All*. At the time of this debate the local currency (the rand) suffered a sharp devaluation against major currencies. This economic 'crisis' provided the political opportunity for the government to adopt the principles contained in the employer's macro-economic proposal.

Gear was drafted by the Ministry of Finance and adopted by the ANC's National Executive Committee without any discussion within the party's structures. It has become the governments over-arching strategy on macro-economics committing the state to restraint in public expenditure, speedy deficit reduction, and further liberalisation of trade and privatisation of parastatal corporations (Lodge, 2003).

The ostensible aim of the policy is to address slow economic growth and its remedy is to have this growth driven by private sector investment. Supply side measures were adopted to encourage capital investment. It sought a three per cent budget deficit target and government spending was consequently reduced to meet these deficit targets. The tax system was to be highly regressive with, for example, no Capital Gains Tax. The main source of additional revenue for greater social expenditures was to come from improved tax collection. Capital controls were relaxed as well as the exchange rate. Rapid tariff reduction was adopted in excess of the demands of the General Agreement on Trade and Tariff's prescriptions at the time.

Most of the orthodoxy of the International Monetary Fund in the 1980s proposed measures in the form of Structural Adjustment Programmes that were imposed on countries who had struggled with balance of payment problems were adopted by the SA government. These entailed high real interest rates to depress aggregate demand, lower inflation and control budget and current account deficits. There was also the introduction of measures aimed at making the countries more porous for capital

penetration. Significant in this respect were demands to slim the state by cutting expenditures, deregulating industry and promoting the privatisation of state assets. Gear, without any direct pressures from the International Monetary Fund, as SA had no noteworthy state external debts, adopted many of these policies.

In 1996 the parastatal in the telecommunications industry, Telkom, was partially privatised and by 2003 fifty per cent of its shareholding had been privatised and the SA Post Office was commercialised in 1996.

The financial sector shot up to twenty per cent of the entire SA economy, although it employed only 1 per cent of the workforce, while manufacturing and mining shrunk, with perhaps one million jobs lost in these sectors plus agriculture. The electricity and water grid was expanded, but with cost recovery applied, ten million people suffered water cut-offs and five million were evicted (van der Walt, 2006).

Gear's promise was that it would have generally beneficial results. It placed affirmative action in the centre with the aim of developing a black bourgeoisie through land distribution to commercial black farmers and state assistance to black entrepreneurs. This was to be facilitated by joint ventures with established capital that was primarily white owned. This mix of policies was to deliver higher rates of economic growth that would result in improved living standards for the most majority and so end mass unemployment and poverty (McKinley, 1997).

The reality of the outcomes of this policy was far from the envisaged targets. Research conducted in 2003 found the following:

- 55 per cent of unemployed and 32 per cent of employed said they were unable to afford food;
- 54 per cent of jobless and 43 per cent of employed could not afford basic services;

- 46 per cent could not afford rent or bond payments;
- 68 per cent earn less than R500 per month whether working, self-employed or unemployed;
- 86 per cent are looking for work; and
- 1 in 8 among self-employed said they earned enough to live on. (CASE, 2003).

The 'Cities Report' (2002) revealed there was a 180 per cent increase between 1996 and 2001 in the number of urban households with no measurable income at all. A report by the University of South Africa (2006) concluded that, "the economy is not creating jobs - to a large extent it's jobless economic growth". The 2005 United Nations Development Fund's Human Development Index (using measurements of life expectancy, educational attainment and adjusted real income) placed South Africa 120<sup>th</sup> out of 177 countries measured (McKinley, 2006).

The government claimed that 1 080 000 jobs had been created in the period from 1997 to 1999. Gear promised the creation of 818 000 jobs in this period. However, it was shown in the October Household Survey of 2000 that 944 000 of these jobs were in the informal and agricultural sectors, whilst Gear had claimed that it would create jobs in the formal economy (Eveleth, 2000). In fact, a further 402 000 formal sector jobs had been lost in that period (ibid.).

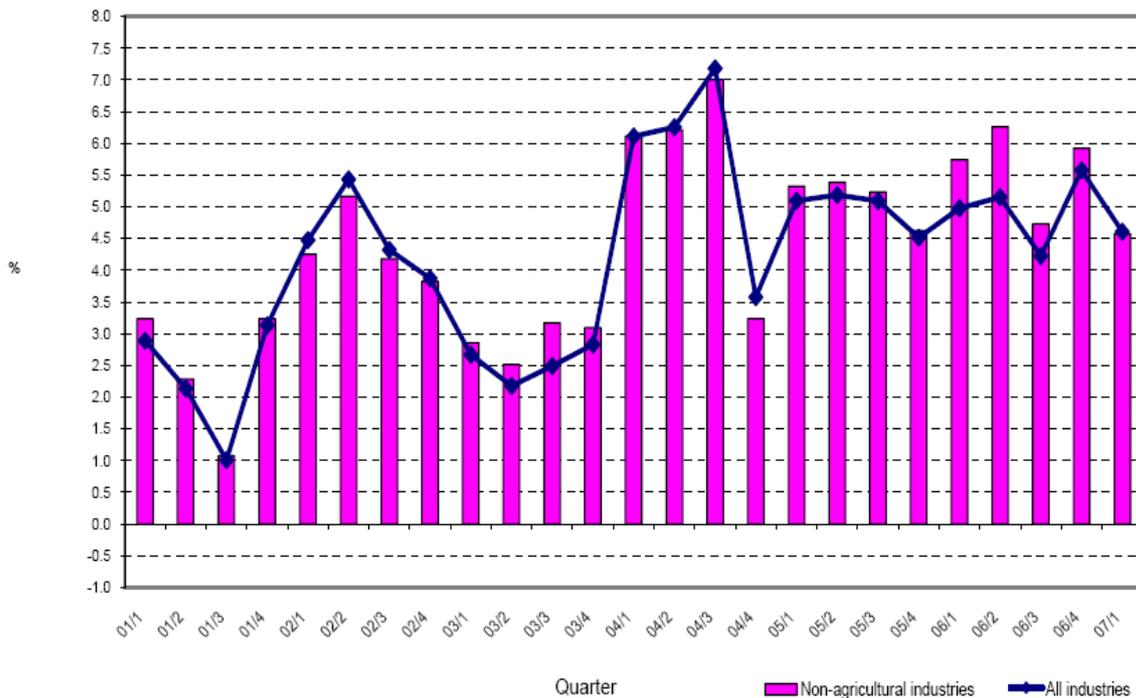
Beyond the job losses the total workforce had grown by 6.9 per cent in the period 1996 to 1999 (Statistics South Africa, 2002). So beyond the job losses the unemployment situation had worsened with new entrants into the labour market.

Hemson and O'Donovan (2005) noted that many of the targets of Gear were quietly ignored by the government. It has to be noted that "with low levels of delivery, the backlogs may be growing even as delivery increases. Such are the dimensions of the problem that backlogs among the

dispossessed tend to grow faster than delivery in many sectors" (*The Star*, 1 November 2005).

Since the adoption of Gear there has been significantly higher economic growth rates as can be seen in the graph below.

**Figure 2. GDP Growth Levels in South Africa**



Source: SA Reserve Bank

The higher growth rates have failed to improve the social and economic well being of the poor. These failures of Gear ought to lead to a reassessment of the state’s macro-economic policies and an understanding that economic growth levels in and of themselves are not the solution to the country’s ills (BIG Financing Reference Group, 2004).

**The Effects of the Dutch Disease**

“... the (mineral-energy complex) is to be understood as a system of accumulation specific to South Africa and its history. At the

simplest level, it comprises a core set of activities organised in and around energy and mining. Contrary to majority opinion, these core sectors continue to carry a, if not the, major determining role in the economy. Further, they have been attached institutionally to a highly concentrated structure of corporate capital, state-owned enterprises and other organisations such as the Industrial Development Corporation which have themselves reflected underlying structure and balance of economic and political power.” (Fine, 2007: 13 – 14).

This sums up the development of SA capitalism that was dependent in its early development on deep-level mining, particularly of gold and diamonds and this has marked its development to this day. The government was a key supporter of the major SA corporations as can be seen by the R700 million subsidy to build the aluminium smelter, Alusaf, whose major shareholders were Anglo-American, Sanlam and Gencor, the Industrial Development Corporation and Eskom that was highly capital intensive at a time in the early 1990s when unemployment was at critical levels and the government was formally committed to support labour intensive industries (Bond, 2005). This situation has not changed marketly despite the relative decline of the extractive industries from a peak in 1973 to a trough in the early 1990s and a growth again since the mid-2000s with demand from China and India pushing up prices.

The move from basic extractive industries to consumer, intermediate and capital goods has not been completely successful. The reason for this anomaly is partially due to the Dutch Disease. This is a phenomenon of export-led economies where the local currency appreciates, particularly in respect of non-traded versus traded goods (Corden and Neary, 1982). This creates a balance of payments problems and hard currency shortages that make the acquisition of capital goods difficult for the manufacturing sector. Resources are thus drained from the manufacturing to mining or oil drilling sectors. The effect of this is to dampen growth in the manufacturing sector.

There is also the effect of labour supply as the extractive industries tend to be better paid so the flow of skilled workers to this sector is strong leaving the manufacturing sector suffering skills and labour shortages.

An export-led growth path is low as long as the terms of trade are set by the extractive industries (Davis, 1995). The state has to be a key actor in shifting focus to a high-wage, Fordist manufacturing sector. In order to do this it has to act against the interests of the dominant fraction of capital. To achieve this objective, there has to be an equally powerful oppositional class formation. This was initiated for underdeveloped countries in the immediate post Second World War period where state centred development was dominant. In the post-colonial period this trend continued under the influence of Prebisch who argued for internal industrialisation as a means of overcoming the impoverished situation of Latin America (Arrighi *et al*, 2003). This was pursued with ISI Policies in the 1960s and 1970s of Latin America, Algeria, Egypt, etc. that relied primarily on an indigenous petit-bourgeoisie that was willing to challenge the dominance of colonial or ex-colonial corporations. It is also true today in Venezuela where the Chavez regime relies on popular mobilisation in order to break the control of the oil sector from foreign capital and comprador bourgeoisie (Fifth International, 2007).

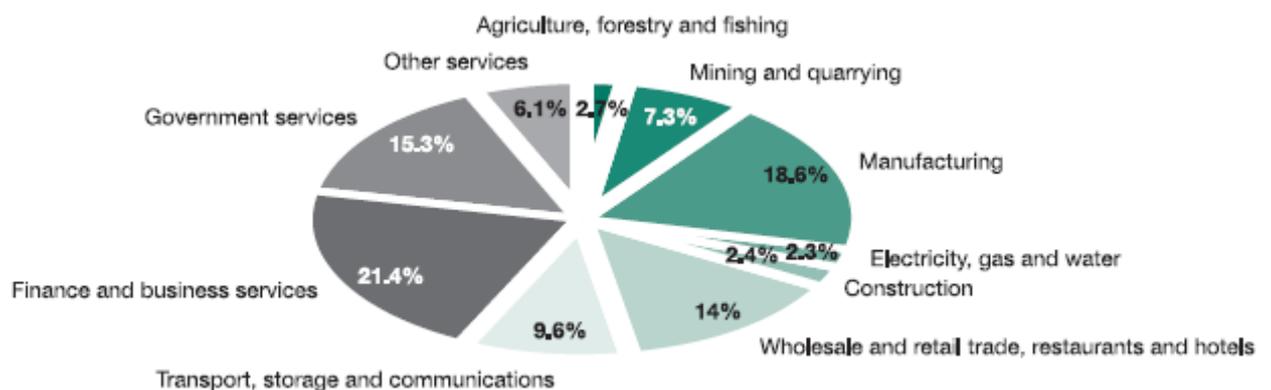
It is possible to overcome the Dutch Disease phenomenon with productive use of the windfall of the mineral industries if the state is able to extract taxes from these industries and redistribute it to other sectors of society. However, national industrialisation does not automatically lead to reduced income inequality and might even lead to greater inequality dependent on the ownership structure and the mode of insertion of that national economy into the world division of labour (Arrighi *et al*, 2003).

Even if there is successful industrialisation, there are still immense competitive pressures in the world economy. If we consider China's successful industrialisation since the late 1970s and the flooding of world

markets with manufactured goods, this has put downward pressure on the price of these goods, eliminating uncompetitive industries in previously industrialised countries like the clothing and textile industry in much of the world, including SA. What appears critical in the production of wealth in underdeveloped nations is not so much the quantum of wealth created but its ownership and control. 'Oligarchic wealth' does not predispose itself to redistribution efforts and in order to redistribute this wealth requires significant political power.

In the SA case the large mining companies had the foresight to diversify their holdings and so spread to most sectors of the SA economy as can be seen in Figure 3. The state has supported this initiative in areas they have identified as global growth areas through fiscal incentives, infrastructural investment and financing of what they deem to be priority sectors, which they have identified as financial services and tourism (OECD, 2007).

**Figure 3. GDP by sector (2005)**



Source: OECD

The extent of this is that the shareholding showed that the largest companies: Anglo-American, Rembrandt, Old Mutual, Sanlam and Liberty Life controlled a remarkable 85 per cent of the market capitalisation of SA's Johannesburg Stock Exchange in 1990 (Bond, 2005). It would appear that although some diversification has occurred, GDP is likely to continue to be

dominated by primary products and natural resource intensive industries for the foreseeable future.

There is a further concern emerging out of the Dutch Disease: the dominance of the extractive industries in the economy attracts high degrees of public investment in infrastructure that supports such industries. This improves productivity in the non-tradable at the expense of the tradable sector. This phenomenon is very evident in the pattern of SA industrialisation with the mines attracting huge public investment, e.g. the Sishen railway line solely devoted transporting coal for almost 2000 kilometres from the mining areas in the centre of the country to the coast. The problem with high investment in the extractive industries is that when there is a global depression in the price for these raw materials, then those industries suffer. The sunken costs are generally enormous meaning that these industries are highly illiquid and immobile. State resources spent on these industries are then wasted and job shedding can occur at a rapid rate. Most of the job losses in the South African economy in the decade of the 1990s were the result of the decline of the gold mining industry caused by the drop in the gold price (Statistics South Africa).

The effect of the dominance of mining in the SA economy for more than a century is that it has limited the growth of productivity in the intermediate and capital goods sectors (Fine, 2007). When the economy expands, there is a growing reliance on imports for these goods, leading to balance of payment problems. Most beneficiation of raw materials occurs externally leading to inefficient up- and downstreaming of economic activities.

Given the distortion in relative wages between the non-tradable and the tradable sectors and the relative concentration of government expenditure on the former, poorer sections of society suffer disproportionately more from the Dutch Disease.

In the SA case not only did the government support the extractive industries with supply-side policies but they also ensured that the cost of labour was minimised through the system of apartheid whereby the large pool of unskilled black labour was located in rural Bantustans. In these Bantustans, as pointed out above, social services were non-existent. During periods of labour-shedding the absence of a welfare safety net meant that all of these retrenched workers had to fall back upon the rest of the working class for support. A further problem arising out of the situation of a poorly paid workforce is that this inhibited the development of a domestic market. This was aptly illustrated when it was reported that the automotive industry lost 290 000 jobs despite an investment of R5.7 billion in the period 1994 to 1999 (*Business Day* 17/07/2002). This was mainly due to deterrents to investment such as the small size of the local market, the low level of disposable income, low economic growth and a low return on investment (ibid.).

Other sectors showed decline as well: mining lost 47 per cent, manufacturing lost 20 per cent while there was even a decline in public sector employment of 10 per cent (Bond, 2005). Women are worst affected in the growth of unemployment with female unemployment standing at 46 per cent compared to 35 per cent for males whilst female wages as a percentage of male's declined from 78 per cent in 1995 to 66 per cent in 1999 (ibid.).

### **The Developmental State as a Means of Overcoming the Dutch Disease**

Pillay sees a 'developmental state' as one where

"... a Weberian de-personalised, impartial and rules-driven bureaucracy that has a high degree of autonomy from competing interests in society... that is not insulated from society but is embedded with key social classes. A

developmental state is by definition interventionist, and goes against the idea of a neo-liberal minimalist state that leaves 'development' in the hands of market forces. A 'developmental state', however, can be authoritarian and narrowly focussed on economic growth, and easily degenerate into a patrimonial state, or it can be democratic and accountable to the needs of the poor and marginalised" (2007: 182).

The historical successes of underdeveloped states improving their relative wealth in global terms has occurred through ISI in Latin America and south east Asia using such tools as industrial protectionism, targeted investment and finance and a suppression of trade union activity suppressing wage cost inflation.

The successes are mixed as regards the welfare provisions these states have utilised. In Latin America the focus was on the urbanised workforce and, because of the closed nature of the economy, costs could easily be rolled over (Huber, 1996). A corporatist welfare state emerged that used welfare provisions to co-opt and control militant urban groups (ibid.). Typically, ISI did not lead to a massive expansion in the employed working class and so trade union density remained low leading to weak working class pressure of a universalistic and egalitarian welfare state (ibid.). On the other side of the class divide were strong *latifundists*, no real peasantry and so very little opportunity for a working class and peasant alliance (ibid.). The effect of the 1980s Debt Crisis led to growing neo-liberal pressure on these states and a re-orientation to export-led growth with considerable economic contractionary results, which led in turn, led to a diminishing welfare state (ibid.).

In Japan, Taiwan and South Korea there has been an emphasis on education, and improved primary health that was the forerunner to rapid economic growth (Fine, 2007). The state encouraged consumerism, suppressed labour and human rights and paid little heed to environmental

concerns (Pillay, 2007). In the case of China there was a considerable welfare state in existence prior to the commencement of market reforms in the late 1970s. The effect of the Asian Financial Crisis in 1997/8 had unexpected consequences in these states: in South Korea there was an expansion of the welfare state but this can partly be explained by the need of the state and capital to preserve the necessary skills within the workforce while great uncertainty in the prospects of recovery existed (Fine, 2007).

In a consideration of the kind of countries construed to be developmental states such as Cuba, Venezuela, Kerala in India, Porto Alegre in Brazil and South Korea, the fact that there is some elements of the suppression of the bourgeoisie makes it possible to pursue an agenda that is advantageous to the working class.

There has been some who believe that SA displays features of a developmental state most notably Mark Swilling *et al* (2005) who argues that it was the government's strategy in the first period of post-apartheid rule to undo the edifice of the apartheid state and now that that task has been accomplished, to develop greater developmental strategies that will see private sector investment levels considerably increase.

Since the 1980s there has been very little investment in productive capacity in the economy because of investment uncertainty as the country was gripped by ongoing popular resistance to apartheid-capitalism leading to numerous states of emergency. This lack of investment in capital goods leads to an ageing capital stock (Fine, 2007). A large injection of capital is required to reinvigorate the productive capacity in order for the economy to become competitive on the world arena. This is aptly demonstrated by the gold mining sector, which despite the booming gold price since 2004 recorded its lowest production of 297.3 tons in 2005 since 1923 (OECD, 2007). Gold mining still compromises a sizable share of the SA economy of 7.3 per cent and has a great multiplier effect (Keynes, 1973). The low investment was due to the appreciation of local currency, partly due to the

effects of the Dutch Disease. The industry failed to invest because of uncertainty in legal title to mineral rights as the government floated the idea of loosening the ownership of mineral rights by the mining companies. There were also constraints in rail and port capacity. It is estimated that these factors were responsible for a net R10 billion reduction in capital investment per annum (OECD, 2007).

There is a high concentration of ownership of the economy and these dominant corporations have successfully divested assets worth as much of 7 per cent of GDP, moved to speculative activities and successfully ensured that the government implement programmes conducive to their own profit-seeking operations such as relaxing exchange controls, securing state subsidies and privatisation orientation of the state.

Some major structural weaknesses are evident in the SA economy that is constrained by supply-side bottlenecks and external constraints (Fine, 2007). Economic growth around the 5 per cent level that we have seen in recent years has not dented unemployment in any meaningful way. Low investment rates below 20 per cent of GDP because of low levels of domestic savings and problems associated with foreign direct investment making the availability of infrastructure inadequate and so reducing the quality of service delivery and the provision of the necessary welfare measures to combat high levels of poverty and deprivation (ibid.).

The government is opposed to a universalistic welfare state regime and has intimated that it is not in favour of providing such benefits (Seekings, 2007). Instead it is focussing its efforts on an EPWP, primarily in preparation for the soccer World Cup in 2007 for which R15 billion has been earmarked (OECD, 2007). Other major areas of investment are in the transport infrastructure and the power industry (ibid.). These areas of investment have a large multiplier effect and could, to some extent, reduce unemployment.

The prospects of a developmental agenda for the SA state seem bleak as the government maintains its neo-liberal orientation. The government has been at pains to preserve its fiscal stability and have given no indication that it intends to extend its social expenditure. The argument is that there is little further scope for further increases in tax revenue as most measures aimed at ensuring tax compliance have been implemented (ibid.). This indicates that the government has no intention of sourcing increased tax revenues from the wealthy or from capital. While the government pursues an export-led growth strategy that relies on capital intensity the prospects for an increase in incomes to the huge numbers of unskilled workers is slim. Where low skilled workers are in abundance, there is no need for the state to pay special attention to the conservation of these workers. Well-paid, skilled workers' benefits are taken care of through their employment relationship or through the market.

The economic growth that the ANC government is committed to will continue to breed poverty and will exacerbate inequality as it remains capital intensive and reliant on high skills (Seekings, 2007). We can deduce from this that the government is more concerned about giving expression to the needs of capital than being willing to invest in the welfare of the population in a way that will raise the standard of living to acceptable levels.

## **CHAPTER FOUR**

### **BIG in South Africa**

#### **Social Considerations**

The BIG Coalition was formed in 2001 to develop a common platform among advocates of a universal income support grant and to mobilise popular support for the introduction of the grant. The Coalition believes that the introduction of a BIG would serve the following purposes:

- provide everyone with a minimum level of income;
- enable the nation's poorest households to better meet their basic needs;
- will stimulate equitable economic development;
- promote family and community stability; and
- affirm and support the inherent dignity of all. (BIG Coalition: 1).

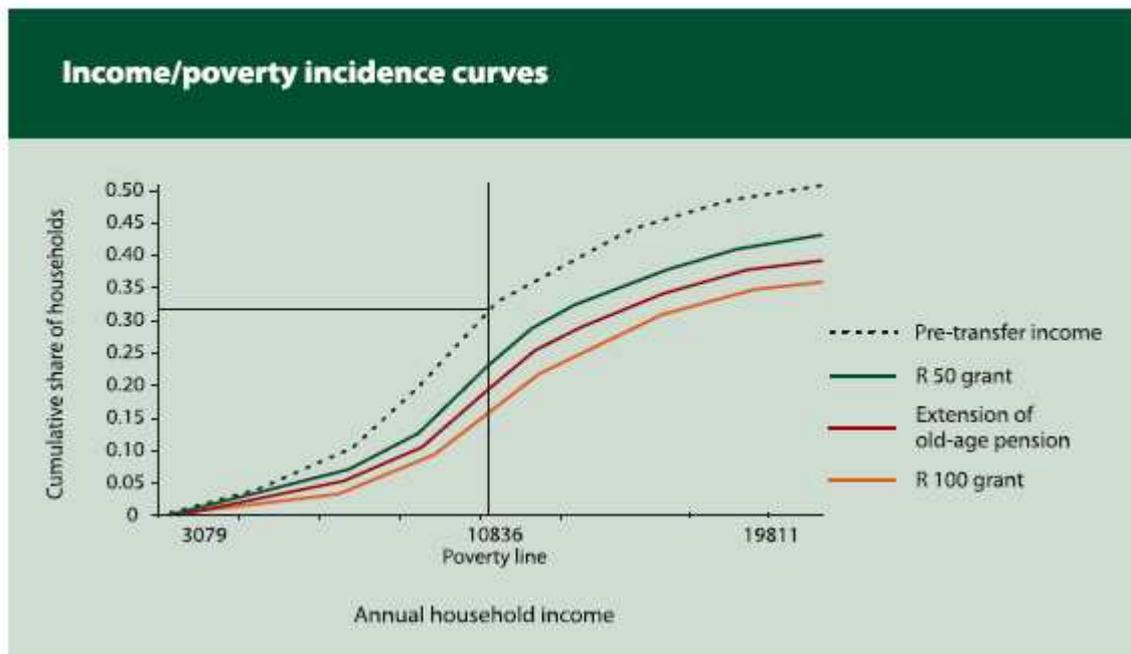
The proposal for the BIG is R100 per person per month. The nature of the proposal is such that it would not meet the kind of criterion that Esping-Andersen sets for a social democratic welfare state regime where benefits would be equivalent to those that middle income earners receive. Rather it could be categorised as the kind of benefits a liberal welfare state regime provides: being of a low level, except that it would be universal and not means-tested.

In implementing the BIG the problems associated with means-testing particularly around the poverty line would be avoided. This would eliminate the disincentives of a means test as there would be no reason to avoid seeking further paid employment. The advantage of BIG is that it would be universal and not have the stigma attached to it that Esping-Andersen refers to as integral to a corporatist or liberal welfare regime. It would aid

an overall developmental strategy as those who receive the benefit would pay part of it back to the government through the taxation.

The effect of the introduction BIG would be significant drop in poverty as can be seen if Figure 4. If BIG were to be introduced at R100 per month it would reduce the poverty incidence by 51 per cent and the mean poverty gap by 67 per cent (Bhorat, 2006). At even R50 per month poverty incidence would be reduced by 27 per cent and the mean poverty gap by 42% (ibid.).

**Figure 4. Income/poverty incidence curves**



Source: UNDP

### **Economic Considerations**

BIG's advantages to the economy is of three varieties, viz. (a) an improvement in the productivity of labour deriving from the improvement in the general condition of the working class's health, education and economic stability; (b) the greater opportunities the unemployed would have to seek

employment and an increase in labour demand emanating from such improvement in factor productivity, and (c) enhanced economic growth prospects through an expansion of aggregate demand and a consequential shift in spending patterns and income distribution away from luxury import proclivities to more basic consumption that is largely locally sourced.

The tax structure proposed below would have the following distributional effects:

- (i) Those occupying the lowest rung of the income ladder would experience a net gain;
- (ii) Those in the middle income range would experience a neutral effect; and
- (iii) Those in the highest income range would experience a negative net income effect.

The BIG would also create an internal market and multiplier effect on aggregate demand in the economy, thereby stimulating economic growth. The increase in consumer demand would stimulate supply. A spending/income multiplier effect would cause a change in aggregate demand which would cause a further change in aggregate output for the economy. This would increase investment and generate jobs, which in turn would generate further additional income and so on. When a country like SA, which has an unemployment figure of 40 per cent (Statistics South Africa, 2007) and many workers are cyclically unemployed and much industrial capacity is sitting idle or incompletely utilised. By increasing demand in the economy, it would be possible to boost production. This process does not lead to an economic explosion not only because of the supply-side barriers at potential output (full employment) but because at each "round", the increase in consumer spending is less than the increase in consumer incomes. That is, the marginal propensity to consume is less than one, so that each round some extra income goes into saving, leaking out of the cumulative process. Each increase in spending is thus smaller than that

of the previous round (Case and Fair, 2006). It has been argued that one of the most important factors that can stimulate investment demand is government transfers to the lower income segment as this segment has little propensity to save (Evans *et al*, 2006). The marginal propensity to consume is highest amongst low income earners and will not fuel inflation given the high unemployment rate, low skill level, technique and existing equipment (Keynes, 1973).

One means of realising the revenue for the funding of BIG is for the government to incur debt with the hope that the economic stimulus would promote increased economic activity through the multiplier effect. However, a careful study of SA's propensity to save does not lead to very conclusive evidence of improved economic growth.

**Table 1. Changes in marginal propensities to save**

Household income deciles	Initial marginal propensity to save	Percentage point deviation from initial rate under each financing option		Percentage share of additional savings burden borne by income deciles
		Deficit spending	'Balanced' package	
0 – 10	0.1	1.0	0.3	0.2
10 – 20	0.1	1.0	0.3	0.2
20 – 30	0.1	1.3	0.5	0.4
30 – 40	0.1	1.3	0.5	0.5
40 – 50	0.3	2.7	0.9	1.5
50 – 60	0.3	2.7	0.9	1.9
60 – 70	0.5	5.6	1.9	5.7
70 – 80	0.5	5.6	1.9	8.2
80 – 90	0.8	7.9	2.7	18.1
90 – 95	1.1	11.6	4.0	21.1

95 – 97.25	1.1	11.4	3.9	6.9
97.25 – 98.5	1.1	11.4	3.9	8.1
98.5 – 99.25	1.1	11.3	3.9	9.3
99.25 – 100	1.0	11.0	3.8	17.8
All households	0.8	7.2	2.0	100

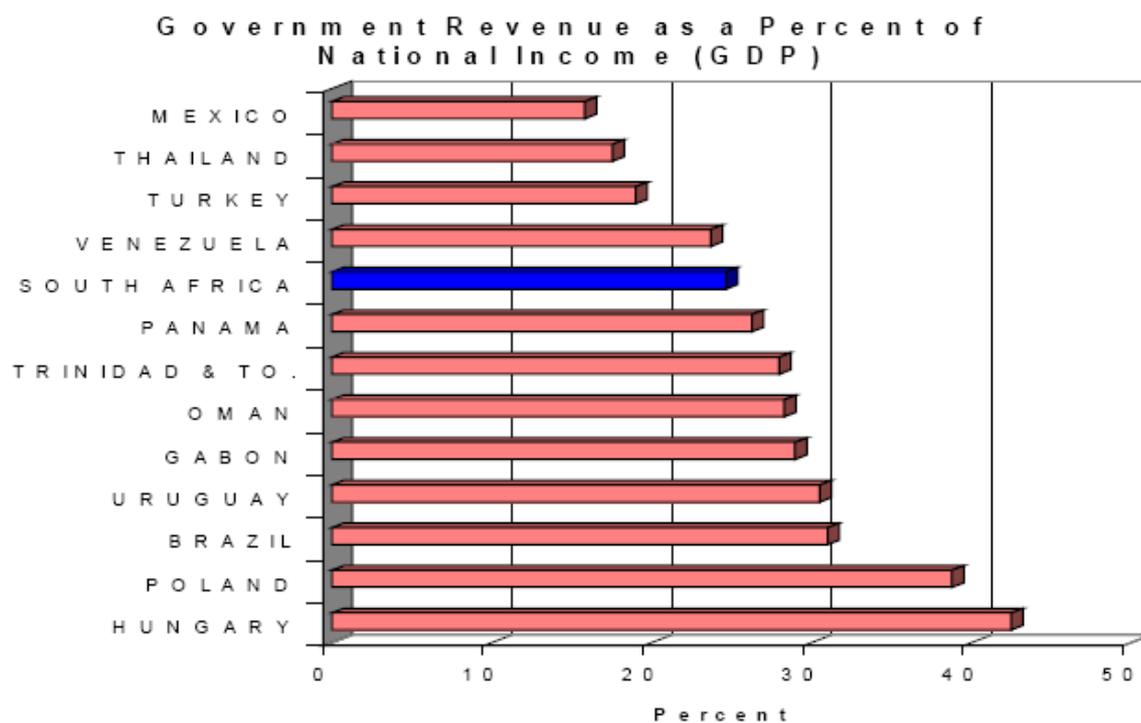
Source: Statistics South Africa

The above table shows that BIG increases household savings rates by considering column two but this reduces the level of net income that is spent on consumption (Thurlow, 2002). Thus there is only a marginal increase in private consumption. We can see in column three that the greatest proportion of additional savings are generated by the higher income groups and so dampening consumption levels by these groups (ibid.). The effect on the overall level of GDP is thus neutral. Deficit spending would lead to inflationary effects because it requires improved savings rates, which are not likely. The possible resort to deficit budgeting in the hope of increased future GDP is thus doubtful (ibid.).

One of the objections of government to introducing the BIG is that it is unaffordable with each of SA's 22.5 million adults, excluding pensioners, receiving this benefit it would amount to R28 billion annually (Samson *et al*, 2002). This would amount to 2.3 per cent of SA's overall national budget. There has been considerable opposition to increasing tax rates as the government pursues tight fiscal policy. The government does, however, have some scope for increased taxation rates. The state has consistently collected more taxes than was budgeted for. This indicates that there is considerable untaxed areas in the economy that could add to state revenues and that tax rates are considerably below revenue inefficient levels or below (2) on the Laffer Curve.

SA's tax rates are 4 per cent lower than comparable middle income economies as can be seen from the table below:

**Figure 5. Government revenue as a percentage of GDP**



Studies have found that SA's tax rate is below what could be expected for economies of its size and additional revenue sourcing opportunities could raise as much as R25 billion per annum without undermining the country's competitiveness (ibid.)

A further problematic feature of SA's tax regime is that it is highly regressive. Approximately 25 per cent of revenue is derived from indirect consumption taxes yet the poorest quintile spends 61 per cent of their income on goods taxed in this way (ibid.). Here we find that the lowest income decile contributes a total of 8.5 per cent of their consumption expenditure to taxes whilst the top decile contributes 5.9 per cent of their income (Thurlow, 2002).

Samson *et al* (ibid.) argue that it is possible to fund the BIG in the following way:

- (1) Increase the progressivity of income tax (R7 to 12 billion)
- (2) Reduction of private sector medical aid subsidies (R2 to 3 billion)
- (3) Gains from capital gains tax (R9 to 14 billion)
- (4) Increase in indirect consumption taxes (R4 to 7 billion)
- (5) Increased taxes on luxury goods (R3 to 5 billion)
- (6) Eliminating tax evasion (R5 to 6 billion)
- (7) Savings from other welfare programmes (R3 to 4 billion).

In total this amounts to a net gain of between R33 and 51 billion – far in excess of that which is necessary to fund the BIG.

There have been objections to the above funding model by van der Berg (2002) in particular who submitted a response to the BIG proposal on behalf of the employers' think-tank, the South African Foundation. Their objections are primarily that the costs have been underrated, arguing that the costs of BIG for the entire adult population amounts to R54 billion annually (van der Berg, 2002). In addition to this, the administration costs amounts to a further R10.8 billion (ibid.).

Van der Berg argues further that it would thus be necessary to raise indirect consumption taxes from its current rate of 14 per cent to 24 per cent, creating an inflationary impact and fuelling cost push inflation (ibid.). If company tax rates were to be increased, there would be a rollover of costs to consumers also fuelling inflation (ibid.).

In van der Berg's analysis the top marginal tax rate would have to be increased from 40 to 66 per cent. In total he calculates that tax revenue would increase from 26 to 33 per cent of GDP. This would lead to a deadweight loss and the commencement of spiralling inflation and lead to

lower economic growth in the long term and lead to a loss of investor confidence in the economy (ibid.).

This argument is misleading as the proponents of BIG suggest that the benefit only covers adults and not the entire population. In respect of the administration costs, these could be considerably reduced through electronic banking using the existing administrative capacity within government.

A spreading of the tax burden in a balanced manner through the mechanisms indicated above would spread the tax burden and not result in any onerous focus on one specific revenue stream. By ensuring that there is no reliance on increased sales taxes, private consumption demand is not pushed down by inflationary effects (Thurlow, 2002). The distributional effect on higher income households is reduced by lower tax rates brought about by lower government consumption expenditure and the reorientation of its expenditure towards import-intensive spending, which brings down total absorption and thus the compulsion to save for these high income households is correspondingly reduced (ibid.).

It is acknowledged that the taxable effect would create a redistributive effect, which is acceptable given SA's extreme income inequality. All of the above proposals involve some redistributive income mechanism. However, the government has shown an unwillingness to move towards implementing the BIG. In order to understand its reluctance to act we now look at the balance of forces.

### **Forces for and against BIG**

The most consistent opponents against BIG have been the employers' association, particularly its peak association, Business South Africa. As indicated its think-tank, The South African Foundation, published its arguments opposing BIG once it was recommended by the Taylor

Commission. Its fundamental premise is that poverty will be alleviated through economic growth and this will spread throughout the economy, a classical trickle-down approach. It has endorsed government's Gear policy as appropriate for South African conditions. It believes that the current approach to fiscal discipline is correct, maintaining central bank independence, maintaining competitive inputs (including that of labour) and ensuring that tax rates remain as low as possible (Seekings, 2007). For them macro-economic stability was paramount, which they believe will lay the basis for economic growth and consequently job creation, which will reduce poverty (ibid.). They believe in targeted relief aimed at specific risk groups rather than the generalised universal benefit that BIG entails. They question the utility of the BIG as an economically stabilising mechanism as they believe that the South African economy is not constrained by excess capacity (Archer, 2005). Any additional demand will not result in additional production stimulus as the output gap is cyclical and so additional demand will be inflationary, put upward pressure on interest and so constrain growth (ibid.).

The initial approach of the BIG coalition was to have sought to engage with diverse groups in civil society to forge the broadest possible unity and attempt to persuade government of the benefits of BIG. It has succeeded in making submissions to various policy-making government bodies, including the Taylor Committee of the Department of Social Development. It has also engaged in a media campaign seeking to influence public opinion in favour of BIG.

The BIG Coalition's attitude after facing government indifference to the proposal has not been to raise the criticism of government but has continued to pursue a low-key engagement with government. While there was still some interest from the government in considering the idea, the BIG Coalition continued to patiently set out its views. Recently the campaign seems to have run out of steam with its last official press release according to its website being in 2005.

The BIG Coalition's key working class constituent is Cosatu, the largest trade union federation in SA. Cosatu is in a formal alliance with the ANC government and the SACP in what is known as the Tripartite Alliance. The general approach to government and the ANC is to seek high level engagement in official Tripartite Alliance fora. It has been very careful in adopting an antagonistic attitude to government (Matisson and Seekings, 2002). In its 2006 National Congress Cosatu reaffirmed its commitment to the BIG campaign but failed to provide any concrete programme to pursue the idea. Interestingly, the resolution tentatively raises the level from the R100 per month that the BIG Campaign is committed to between R100 and R200. As has been argued above, the BIG is of most benefit to the unemployed. Workers in the formal sector are generally above the poverty line. The effect of the BIG, particularly at the low level it is set at, is not a priority for the Cosatu leadership.

Other constituents of the BIG Coalition are not very influential in determining social policy. The churches are the next most significant group but they are either not willing or able to mobilise its constituency to fight for the BIG.

The general orientation of campaign to date has been to either engage the government at a very high level or to issue propaganda. There has been little real attempt to involve rank-and-file members of the constituent members in an active campaign.

The fundamental weaknesses thus evident in the campaign in the relatively low demand that would not benefit most of the formal working class greatly, the reluctance of the trade unions to mobilise its members behind a confrontational campaign with the government and the distance Cosatu has from the unemployed who would stand most to gain from the implementation of BIG. In order to overcome the resistance of government and capitalist class's requires more than parliamentary submissions or

propaganda. Cosatu does not currently have the political power to influence the government to change its neo-liberal orientation. It requires a massive campaign that places the peaceful conditions of capital accumulation in jeopardy before there would be consideration to the kind of massively redistributive effect that the BIG would have.

## **CHAPTER FIVE**

### **Conclusion**

The prospects of SA moving away from its polarised and racialised welfare state regime of apartheid to one which meets the promised of the country's constitution and the election promises of the ruling party do not seem good. The absence of any meaningful, universal income protection dooms the vast army of unemployed to live a precarious existence, vulnerable to the ravages of the market. It appears that the proposal for a BIG will deal with poverty and inequality in the short to medium term.

A categorisation of SA today has shifted from the apartheid era where a dual system could be said to have existed of a social-democratic cum liberal welfare state regime for the white population whilst an informal security regime existed for the black population. Today it can be said that a low level liberal welfare regime exists in some respects and in others such as in the basic income protection field an informal security regime exists, where the long-term unemployed have to rely on criminal, family, precarious informal employment or non-governmental support in order to survive.

Social rights that have been placed at the centre of the new SA and have been incorporated into the constitution have not been realised and so, despite its promises, have not been made inviolable thereby weakening true citizenship.

The prospects for a movement from the current welfare state regime to a universalistic social-democratic type are bleak. The SA state does not seem keen to pursue a social democratic welfare state as there is less of a reason for stable class compromises, given the favourable national and international balance of forces.

The SA state will have to break from its existing export-led economic growth trajectory and consider reducing the desire for growth at all costs. This would necessitate a shifting away from the dominant capitalist class to the working class. The hegemony of capital in government thinking is very strong. A shift in the balance of forces does not appear on the cards as Cosatu is unwilling to shift its alliance with the government to one with the unemployed working class and be prepared to campaign vigorously for the adoption of BIG. Only under these conditions would such a radical demand for BIG become a realistic possibility.

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