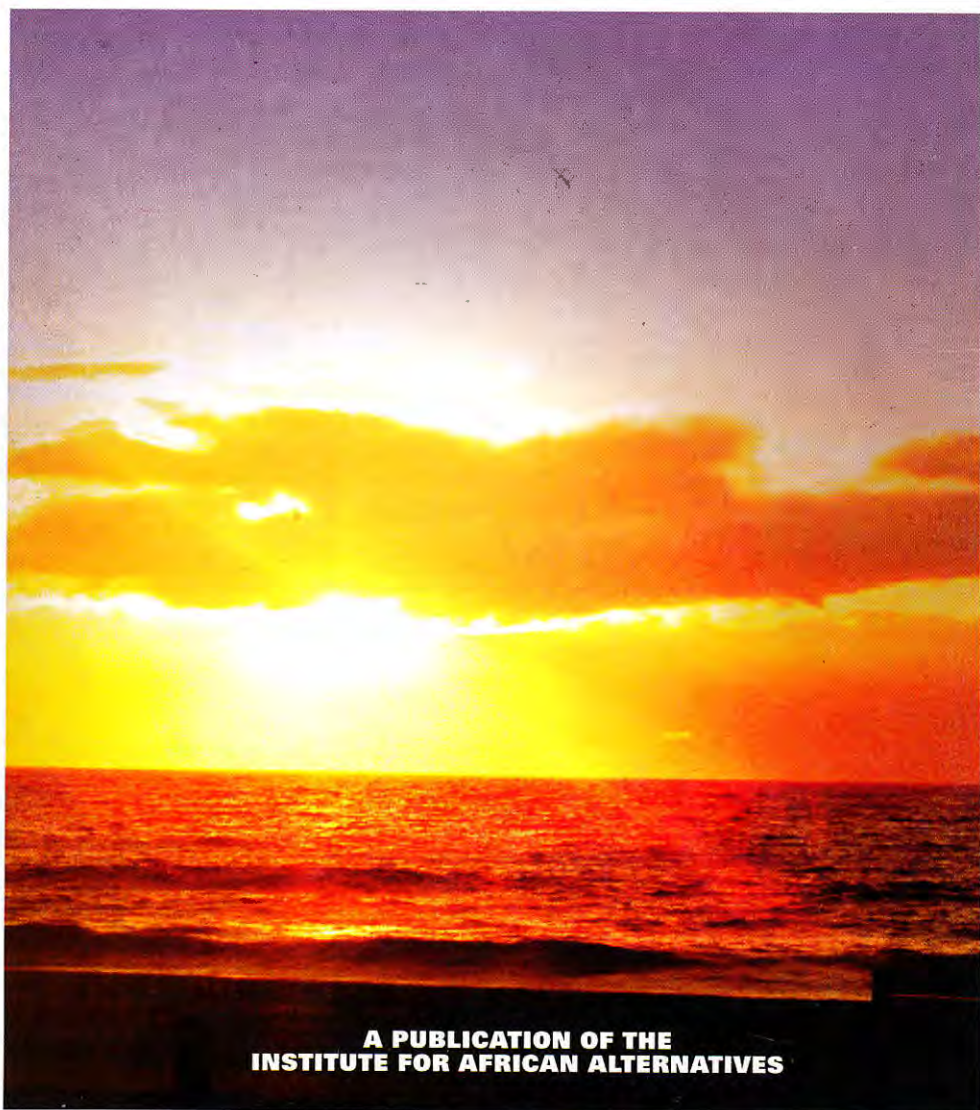


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EDITORIAL

GLOBAL CIVIL SOCIETY PROTESTS

Is there a new worldwide awakening of civil society? With the demise of the socialist states came two decades of the triumph of capitalist states and institutions and the hegemony of free market philosophies. Civil society waited patiently for the fruits of massive wealth creation to be delivered, only to find that the world was being increasingly polarized between and within countries. Even in the rampant US only 1% of the population own 50% of the country's wealth. Most ugly of all, Africa was falling even further behind, giving the lie to IMF claims that growth is significant.

It is these considerations that account for the impact of the increasingly visible civil society protests at Seattle and Prague. That the impact is substantial is evident not only from the huge TV coverage, but from the fact that the Annual Meeting of the Fund and the Bank ended a day early. Participants at the meeting report that it was a terrifying experience. Much of that was due to the violent behaviour of the ultra-left of Europe, which has abundant experience in inner city conflict, but there was also a strong showing of other protestors which made their mark.

Some of the protesters wore bizarre clothing to make a particular point about the environment or infringements of human rights, but the bankers in their uniforms of charcoal grey suits and waistcoats and self important briefcases looked like a mass corps de ballet. They were a visible embodiment of the IMF principle that "one size fits all".

The protests bear a much greater significance than the number of people involved. It seems that we are witness to a new shape to international politics. Government, official international institutions and their meetings are under intense scrutiny by internet monitors from a vast array of civil society organisation. Despite their loose structure and widely diverging views, a new mood has arisen which has to be taken seriously.

To some extent, this mood reflects the new alienation of young people from the new world order and its works. The hegemony of neo-liberalism and its principles of competition, winner takes all and the rat race for consumptionism is not acceptable to young people who seem to understand the importance of mutual care and solidarity.

But adults seem to be joining in as well. In a solidarity not seen before, lorry drivers across Europe blocked roads for days on end in a unified protest against the rise in oil prices. When the idea of a united Europe was first mooted decades ago, fears of this kind of solidarity was one of the arguments used by its opponents. Yet the stance taken by the labour movement in the US seems to indicate that global solidarity may yet come from the international labour movement on issues not far from those motivating NGOs.

That business is taking these issues seriously is evident from a comment by Barton M Biggs in *Investment Perspectives*, published by one of the largest investment houses in the US, "It would be wrong to dismiss the protestors as just a fringe group of long-haired, anti-capitalist activists for sea turtles, butterflies and Tibetan freedom, who are sworn enemies, on principle, to economic growth and free trade... I believe this movement represents a serious backlash and has broader support than you may think. It reflects a growing, populist disenchantment with globalisation. They have disrupted the financing of companies and projects, and they have caused managements to cancel construction of plants. We must be concerned that they could damage the fragile virtuous circle of the global economic boom... They insist that globalisation is another word for one-model extremism that sacrifices all for the sake of profits and efficiency."

In this path-breaking study, *The Olive and the Olive Tree*, Thomas Friedman came to the same conclusion about the protests. They may "one day become strong enough to destabilise globalisation if we don't take the serious backlashes seriously."

South Africa also experienced its share of demonstrations outside the US Embassy buildings around the country, which were mercifully not violent. But the depth of feeling about the issues such as debt cancellation and Africa's marginalisation which inspired Prague are not to be underestimated.

Our official representative at Prague attempted to raise some thorny issues about debt relief, representation on the Board of the IMF and global poverty among others in what seems to be growing unity of purpose among developing countries. On the other hand, the G7 meeting in Japan just prior to Prague showed a total lack of concern among the powers that decide how the world system should be run.

There is no doubt that the condition of the global system is causing concern. The volatility of capital markets, the dominance of the US economy, the huge subsidies for agriculture in Europe, the insistence on further opening up of the markets of developing countries, the rejection of pleas for asymmetry in world trade, the blatant unfairness of it all, all these are generating a new consciousness across the globe.

One commentator on the Danish surprise rejection of joining the Euro said; "It was a vote against globalisation. It gave voice to the same sort of inchoate frustration as the recent protests in Europe..."

The alienation and protests will grow and the authorities will respond with water cannons and tear gas. Perhaps the United Nations needs to focus its collective mind on finding a better way forward.

South Africa's Key Socio-Economic Challenges:

Issues for Discussion

Pundy Pillay

Introduction

This paper provides a review of six key socio-economic challenges that face South Africa at the dawn of the 21st century. It is largely descriptive with its main purpose being to present the issues as objectively as possible with the focus being on how things have changed, especially during the period of the first democratic government. No attempt is made to provide policy prescriptions. Rather, it is hoped that the information gathered can be the basis for informed discussion as well as providing the impetus for progress towards greater consensus in economic policy making.

From the perspective of government, the achievements of the past six years have been considerable especially in the areas of education, housing, health, water and sanitation, macro-economic policy and in establishing a new decentralized political framework. The recent Nedlac report has highlighted many of these achievements. However, the greatest achievement of the first democratic government has been probably in the arena of policy development. Nevertheless, huge challenges remain as government moves the emphasis from policy development to policy implementation and the delivery of services.

The analysis of the key socio-economic challenges facing the country should be considered within the context of the many encouraging signs emanating from government. Foremost amongst these are:

- ▶ Government is clearly prepared to acknowledge that some mistakes have been made in policy development and implementation. Note for instance, the Minister of Trade and Industry's recent comments on government's lack of success in small business development and the Minister of Education's review of Curriculum 2005;
- ▶ There is now increased focus on development and implementation of co-ordinated, cross-cutting policies - e.g. on employment, spatial planning, rural development, human resource development, and crime - rather than focusing narrowly on departmental policy-making;
- ▶ In line with these objectives there has been a radical restructuring of

the important decision-making structures, namely in the Cabinet Committees, and the Forum of Directors-General, to encourage co-ordinated policy-making;

- There is increasingly an emphasis on prioritisation through a cycle of policy planning and budgeting;
- Finally, there is increasing evidence of a willingness to engage in partnerships in the implementation of policy with civil society (especially in the social sector - e.g. education, social welfare, rural development) and with the business sector (privatisation, crime, infrastructure).

We have to acknowledge however, that in spite of what has been achieved we still have a high incidence of absolute and relative poverty; new kinds of inequality are replacing racial manifestations of income and wealth inequality; there is a high and rising level of unemployment coupled with negative formal sector employment as well as high and increasing levels of crime, especially serious and violent crime. This is hardly an environment that is likely to be attractive to foreign direct investment and to be conducive to growth.

The six key socio-economic challenges described in this paper relate to:

1. Macroeconomic Policy;
2. The Labour Market;
3. Poverty and Inequality;
4. The Social Sector;
5. Globalisation and the South African economy; and
6. Fiscal Decentralisation.

1 Macroeconomic Policy

Nothing engenders more heated debate from various points on the political spectrum as does the government's macroeconomic policy, namely, the Growth, Employment and Redistribution strategy (GEAR). Because GEAR is associated with such critical issues as job creation, economic growth, and inflation, discussions on it often tend to be emotional rather than rational.

From the left, GEAR is seen as a version of the IMF's Structural Adjustment Programme, a policy which has been blamed for increasing levels of poverty in many developing countries. For advocates of GEAR, the policy represents an attempt at providing essential macroeconomic stability in order to attract investment and stimulate growth.

GEAR was proclaimed by the government in February 2000 as its macroeconomic policy. Its targets may be summarized as follows:

- ▶ Economic growth of 6% per annum by the year 2000;
- ▶ Accelerated job creation, reaching 409 000 jobs annually after the year 2000;
- ▶ An inflation rate below 10% throughout the period;
- ▶ Average annual non-gold export growth of 8.4% during the five year period;
- ▶ A rise in gross domestic saving from 18% to 22% of GDP;
- ▶ Increased gross domestic investment from 20% to nearly 26% of GDP in 2000; with an average annual real private investment growth of 11.7%;
- ▶ Inflow of foreign investment equivalent to almost 4% of GDP; and
- ▶ Reducing the budget deficit to 3% of GDP.

South African Economic Performance

Table 1 provides a summary of the country's economic performance between 1970 and 1999.

Table 1: Economic Performance, 1970-1999

Annual Average (%)	1970-1999	1980-1989	1990-1999	1990-1994	1995-1999
CPI Inflation	9.9	14.6	9.9	12.5	7.4
Real growth in:					
GDP	3.3	2.2	1.3	0.2	2.3
Gross fixed capital formation	4.7	0.7	1.4	-1.5	4.2

It is evident that the macroeconomic policy successes relate largely to reductions in the rate of inflation and in the budget deficit. As Table 1 shows, CPI inflation fell from an annual average of 14.6 % during the period 1980-1989 to 9.9 % in 1990-1999. The period 1995-1999 was particularly impressive with an annual average of 7.4 %.

Second, the budget deficit as a percentage of the GDP has been reduced from 10.3 % in 1993 to 2.7 % in 1999.

The record on investment, both domestic and foreign, is at best, mixed. Table 1 shows that gross fixed capital formation increased by 4.2 % per annum between 1995-1999. Foreign direct investment increased three-fold, from \$600 million in 1996 to \$2billion in 1997 - however, this was mainly due to the sale of part of Telkom. However, in 1998, there was a reversal of FDI inflows equal to \$1.2 billion or 0.9% of GDP.

The lowering of tariffs, the reduction of corporate tax from 48% to 30%, and the privatisation programme of state assets were supposed to attract foreign investors. However, these measures have yet to achieve that aim. Most foreign investment remains in the form of short-term portfolio investment and not in real productive assets that can lead to the creation of jobs.

The policy has clearly failed in the attainment of targets relating to growth, savings and employment. With respect to economic growth, Table 1 shows that the annual average growth rate for the period 1995-1999 was 2.3 %, far short of the targeted 6 % in GEAR necessary for absorption of the unemployed and new entrants to the labour market. In fact, real GDP declined from 3.2% in 1994 to 0.5% in 1998. In its assessment of GEAR, the National Institute of Economic Policy (NIEP) found that since 1996, South Africa's real GDP has grown by only 1.8%, well below the rate of population growth - in effect, negative per capita growth. Moreover, the ratio of gross domestic saving fell from 16.9% in 1995 to 15.2% in 1997 and 14.2% in 1998, according to NIEP.

Employment in the formal sector has not been anywhere near expectations. In fact, employment in the formal sector of the economy has generally declined during this period and the ranks of the unemployed have swollen to at least 25 % of the economically active population (see section 3).

The key question in the macroeconomic policy debate is: What are the key constraints to growth? Low domestic savings, inadequate levels of foreign direct investment, crime, labour market rigidities, low skill levels, and restrictive monetary and fiscal policies are invariably put forward as causal factors by economists and other social commentators.

Issues relating to skills and the labour market are discussed elsewhere in the paper. This paper at this juncture raises two vital issues relating to the macroeconomic policy debate. The first concerns the linkages between

domestic and foreign investment and the second, the impact of monetary policy on growth.

On the issue of foreign investment as the panacea for the South African economic crisis, Friedman (2000) has questioned the conventional wisdom in a persuasively-argued paper. He argues that mainstream thinking on South Africa's economic future is based on two misconceptions. The first is that the country's prospects depend on its ability to attract foreign investment. However, the evidence shows clearly that 'developing' economies' growth is triggered by domestic investment; the growth which it generates attracts foreign investment which may then help sustain growth. The second is that growth depends on pursuing particular economic policy packages. This ignores the fact that different market economies have grown by applying very different policies. Here, the evidence suggests that the key to growth is a society's ability to resolve and manage conflict over economic resources. Investment, the key to growth, depends on confidence which in turn is the result of effective political management rather than policy recipes. This implies that our growth prospects depend on our ability to generate domestic investment - and that this will be achieved by effective political management rather than macro-economic formulae.

The second important issue on which this section focuses is the impact of restrictive monetary policy on growth. Specifically, what are the consequences for unemployment of reducing inflation to single digit figures?

There is general agreement among economists that the Phillips Curve, which sets out an inverse relationship between inflation and unemployment, no longer holds in the long run. What of the short run, however?

In the context of the recently-set inflation target (3-6 %), Barnardt (2000) in an elegant article argues that there is very little real world evidence to show "that reducing inflation from about 8% to about 4% would yield any meaningful growth benefits in any type of economy".

He shows that IMF emerging-country research in 1996 found conclusively that reducing hyperinflation (of say, anything from 20% to 100% a year or more) to about 12% had major growth benefits. The research also suggested that reducing a country's inflation rate from 12% to 8% bore further moderate growth benefits, but that trying to push it down below 8% "yielded very little reward in relation to the pain such an exercise could involve".

Few economists and policy makers would argue with the notion that the reduction of South Africa's inflation rate from 15% in the 1980s to about 7.5% in the 1990s has brought about moderate growth benefits, by, among other things, enhancing investor perceptions of financial discipline. Barnardt argues, however, that "it is unnecessary - and quite risky at this point of our socio-political evolution - to launch a national campaign to target inflation at 4% or 5%, even if this is set over a three-year period".

Barnardt demonstrates also that some "high inflation" countries such as Mexico, have been the recipients of massive inflows of capital. If such countries could generate high economic growth rates with inflation rates around 10 %, he asks why South Africa is obsessed with pushing inflation to 5 %.

The compelling point that Barnardt makes is that accelerating growth and job creation are much more important in the next five years than getting inflation down to 4% or 5%.

2 The Labour Market

This section examines four sets of issues relating to the labour market:

- 1) Employment;
- 2) Unemployment;
- 3) Skills Shortages; and
- 4) Labour Market Flexibility.

2.1 Employment

Bhorat (1999) and Bhorat & Hodge (1999) have provided lucid explanations of the trends in formal sector employment between 1970 and 1995. The key points of these analyses are described below.

Between 1970 and 1995, formal employment increased by 18.6% or from about 7.5 million employees to 8.9 million. The economically active population in 1970 was 8.1 million and in 1995, 12.7 million, which represents a 57% increase. This shows that the labour absorptive capacity of the formal economy has been inadequate in providing jobs for new entrants into the labour market. This is reflected in the growing numbers of the unemployed, from an estimate of about 570 000 in 1970 to approximately 4 million in 1995.

However, a key structural shift has been the decline of the primary sectors and the growth of the services sector. In terms of occupational shifts, in each of the primary, secondary and service sectors, professional and managerial occupations showed the highest growth rate during the 1970-1995 period.

The analyses demonstrated also that labour demand patterns at the sectoral level can be explained in terms of two forces - within-sector shifts and between-sector shifts. Within-sector employment shifts are those changes in labour allocation that come from within the industry itself. Between-sector changes are relative employment shifts occurring between sectors in the economy. Sources of within-sector shifts include technological change in a sector that may create the need for a certain skill-type over another. Between-sector employment changes are largely explained through the altering shares in aggregate output of the sector under consideration. Through a growing or declining share in production of a sector, labour demand at different skill levels may change.

For the period under consideration, it is clear firstly that demand has shifted away from unskilled individuals to those in semi-skilled and skilled occupations. The key cause of these shifts appears to be technological change within the individual sectors. The rising capital intensity in sectors, coupled with greater computerization, has led to a need for more highly skilled workers. Interestingly though, the results suggest that when examining lower skilled workers, the importance of within-sector shifts remains, but diminishes. This suggests that for those at the bottom-end, the altering shares in national output of different sectors had a more significant role in understanding relative employment shifts, when compared with those at the top-end where employment shifts were overwhelmingly shaped by within-sector factors.

Between 1995 and 1998, total employment in the formal sector declined from 10,1 million to 9,4 million according to information gleaned from the October Household Surveys (OHS) for these two years. For males the decline was significantly greater at 10% while for females it was 3.5 %

The surveys show also that for the same period, the number of people employed in the informal sector increased from 996 000 in 1996 to 1 316 000 in 1998. However, no information is available about the quality of these jobs and the incomes earned.

There were significant increases in the share of women in several higher level occupations including professionals (from 38% to 44%); technicians

(from 52% to 55%); clerks (64% to 66%) and skilled agricultural workers (from 13% to 23%). However, at the other end of the occupational spectrum, there was also a significant increase in women's share of elementary occupations (from 47% to 54%).

With respect to race, there was somewhat surprisingly a decline in the proportion of African professionals (from 34% to 30%) and technicians (from 52% to 49%). Significant increases were recorded in the share of Africans as service workers (from 62% to 71%); as skilled agricultural workers (from 30% to 82%); and as craft related workers (53% to 68%).

For Coloured people, there were significant increases in the proportion of professionals, technicians and clerks and a decline in the share of service workers. For Indians, there was a decrease in the proportion of professionals and an increase in the share of technicians and for Whites, there was a decline in the share of legislators and senior officials, clerks, and service workers and an increase in the proportion of professionals.

2.2 Unemployment

Unemployment statistics in South Africa have long been a source of controversy. In recent years Statistics South Africa has gone some way towards addressing this contentious issue. It now provides two sets of unemployment data: one based on a "narrow" definition of unemployment which is regarded as the official definition of unemployment; and one based on an "expanded" definition of unemployment.

The official definition of unemployment is based on the definition of the International Labour Organisation (ILO): "the unemployed are those people within the economically active population who did not work during the seven days prior to the interview; want to and are available to start work within a week of the interview; and have taken active steps to look for work or to start some form of self-employment in the four weeks prior to the interview".

The expanded definition counts people as unemployed even if they have not sought work in the previous four weeks. This includes discouraged workers who may have given up hope or cannot afford to come to town to seek work.

According to these labour market statistics, the total number of unemployed according to the "official" or "narrow" definition of unemployment increased from 2.2 million to 3.2 million between 1996 and 1998. On

these figures the unemployment rate increased from 19.3 % to 25.2 %.

On the "expanded" definition, unemployment increased from 4.6 million to 5.6 million and the unemployment rate rose from 33.0 % to 37.5 %.

Unemployment rates showed some changes between 1996 and 1998, not only by urban or non-urban place of residence, but also by gender and race, using either the official or the expanded definition of unemployment. Some key features include the following:

- ▶ The increase in unemployment affects both urban and non-urban areas. In 1998, for example, 20.5% of economically active males in urban areas and 28.0% in non-urban areas were unemployed, as against 15.1% of economically active males in urban and 20.7% economically active males in non-urban areas in 1996.
- ▶ The highest official unemployment rate in October 1998 was found among African economically active females living in non-urban areas (39.9%).
- ▶ The second highest rate in 1998 was found among African economically active females living in urban areas (37.4%).
- ▶ White economically active males were least likely to be unemployed in 1998 (4.1%).

Moreover, about a quarter of the unemployed have no education or incomplete primary education. Of the unemployed, 72% have an educational qualification less than matric. There are no significant differences between males and females.

However, the possession of a matric does not preclude unemployment. Twenty two percent of those who were unemployed in October 1998 had a matric. This astoundingly high figure poses some serious research/policy questions about the inability of such individuals to find employment and indeed about the quality of their education.

2.3 Skills Shortages and the Demand for High-Level Human Resources

Co-existing with high levels of unemployment is a huge skills shortage. The dimensions of this skills shortage have been highlighted in two recent studies (DBSA, 1995; HSRC, 1999).

The DBSA study projected skill requirements at all levels up to 2020. All four depicted scenarios (in which the GDP growth rate and the employment elasticity are varied) show that demand would be highest for professional occupations. Interestingly, semi-skilled occupations come consistently second in all four scenarios followed by highly skilled and skilled occupations. No explanation is provided for any of the findings but the unexpected finding on the semi-skilled occupations should surely be researched further because of its important education policy implications. Unfortunately these findings cannot be correlated with those of the HSRC study (described below) or with the official statistics cited for the period 1970-1995 because of the different occupational definitions.

The HSRC study examines past and likely future employment trends (1998-2003), together with the likely medium-term demand for labour in high-level occupations. The methodology involved a combination of estimates based on the 1998 level and structure of employment and an annual growth rate of around 2.7% per annum, and employer interviews.

According to this study total employment is expected to increase by about 45 000 between 1998 and 2003. However, growth varies considerably by occupation. The highest growth rates are expected among professionals (9.6%) and managers (6.2%), followed by artisans (3.9%). Little change is expected at the level of clerical/sales/service and a substantial decline in employment is expected at the level of semi-skilled and unskilled workers (-3.4%).

The highest rate of growth of professional employment is expected in the finance sector especially in banking (almost 50%). This is ascribed to three factors all of which increase the need for high-level personnel: the rapid advance of technology in the industry; the increasing complexity of financial services offered by the financial institutions; and increasing globalisation.

The business services sub-sector of finance is expected to show a growth rate for professionals of almost 31%. This high rate of growth, coupled with the fact that this sector employs 75 000, or almost 8% of all professionals, means that this sector is expected to be the second largest contributor to professional employment growth (almost 25% of total growth).

Strong growth (11.3%) in professional employment is expected in the community and social services sector, which is dominated by private health care and non-government education. This growth is largely in the categories of teachers, nurses and medical practitioners. Growth in this sector is expected to account for more than 12% of total growth in professional employment, which

makes it the third largest contributor to professional employment growth. Slow growth (5.6%) in professional employment is expected in government, mainly due to the low growth in the employment of nurses and teachers.

Although managers were classified as high-level human resources along with professionals, they are expected to show very different growth patterns over the period 1998-2003. The number of managers employed is expected to grow by 6.4% over the period under review which is lower than the expected growth in professionals. The highest growth rate is expected to be in the trade sector.

The HSRC classified future demand for professional occupations into "super-growth" occupations (forecasted rate of growth in excess of 40% - includes computer programmers, analysts and other computer science occupations, chartered accountants), "high-growth" occupations (15-40% - economic and financial occupations, electrical engineers, etc.), "moderate-growth" occupations (10-15% - electrical and related engineering technicians), medical occupations, etc.), and "low-growth" occupations (5-10%).

The study draws attention to the fact that ranking of occupations by expected total number of vacancies over the next five years shows some differences compared to a ranking of occupations by expected growth in demand. The major reason for this is that many occupations have high absolute replacement demand since they are numerically large occupations, yet do not necessarily show high growth rates. By far the most positions (40 000+) expected to need filling are in teaching, just less than half of which will need filling due to replacement. Next are nurses, which are expected to have between 15 000 and 20 000 vacancies. Again, the majority of nurse vacancies are expected to arise from replacement needs. Both teachers and nurses are expected to show only moderate growth in demand over the next five years.

The study shows further that a number of occupations show both high growth in new demand and are ranked high in terms of the number of vacancies which need filling. These include the IT professions, accountants, economic and financial occupations and electrical engineering technicians and technologists. It is probable that these high-ranking occupations offer the best employment prospects for new entrants to the labour market.

A number of occupations show high growth in new demand but the absolute number of positions that need filling are relatively low. These occupations include actuarial occupations, chemical engineers, mathematical and related occupations and industrial/production engineers.

2.4 Labour Market Flexibility

Between 1994 and 1999 the new democratic government passed various pieces of legislation with the primary purpose of safeguarding worker rights and conditions of work. Employers claim, however, that these laws increase the costs of employing labour and the ensuing labour market rigidity deters foreign investment.

These costs are said to derive from the following existing labour laws:

- The Labour Relations Act (LRA) of 1995, amended in 1996, obliges the Labour Minister to extend agreements reached at bargaining council level to an entire sector, including companies that are not party to the agreement. It is claimed by employers that the LRA makes it difficult to dismiss workers, because dismissal procedures are so unwieldy.
- The Basic Conditions of Employment Act, 1997, reduced maximum work hours from 46 to 45 hours a week. Overtime was restricted to 10 hours a week at a rate of time and a half. Hours worked could be averaged over a period of up to four months but only through collective agreement.
- The Employment Equity Act, 1998, pushed up the costs of recruitment and human resources, because managers must make equity plans, monitor their implementation and submit annual audits to the Labour Department.
- The Skills Development Act, 1999, imposes a training levy of 0.5% of payroll increasing to 1% in the second year.

In sum, the three main problems cited by employers with the new labour regulations are:

1. It imposes significant additional direct costs on business;
2. There is a high "hassle factor" associated with compliance; and
3. The legislation "robs" owners and managers of some of the control and flexibility which they perceive as being both desirable and necessary to the effective running of their businesses.

Many in the business sector believe that a fundamental problem with the existing labour law is that it was based on the premise that low wage competition should - as far as possible - be eliminated from the South African labour market, and that business should instead compete on the basis of other costs and "intangibles" such as quality, reliability and service. However,

according to this view, government in developing such legislation does not take into account the fact that producers and suppliers in many developing and developed economies are not constrained to the same degree in their ability to compete. There is also a view in the business sector that some small businesses do not have the expertise to deal with the legal procedures for dismissals and are "intimidated" by mediation proceedings.

In a recent paper, Natrass and Seekings (2000) suggest also that the labour regulations may account for the lack of success of the government's employment strategy. They cite a recent review of labour market and macroeconomic reforms in the OECD, which showed that those countries which tightened their fiscal policies without accompanying this with broader reforms, found this to be very costly in terms of unemployment - especially in countries with rigid labour markets. They state that "co-ordination failures between fiscal, monetary and labour-market policy in South Africa may be evoking a high cost in terms of unemployment. However, there are other forces also at work to exacerbate the situation. The interplay between international competition and protective labour market institutions has exacerbated the reduction in the demand for unskilled labour, and has boosted the demand for skilled labour. This has contributed to rising inequality through widening wage inequality and rising (unskilled) unemployment."

Whether the adverse effects on unskilled labour take the form of lower wages or rising unemployment appears to depend in part on labour-market institutions and the wage-setting machinery. Where labour markets allow sufficient wage flexibility, international trade with low-wage countries is likely to result in a relative decline in unskilled wages. Where labour-market institutions provide a wage-floor, then unskilled unemployment is likely to rise (unless compensating job creation occurs in other sectors, such as services).

Natrass and Seekings go on to argue that there appears to be a strong case that increased openness and trade with low-wage countries is reducing the demand for less-skilled workers in middle-income as well as industrialized economies. In the absence of a large and vibrant informal sector, this suggests that countries that use labour market policies to narrow the wage distribution by raising unskilled wages are likely to experience higher unemployment (among the less-skilled) than those that allow the wages of less-skilled workers to fall.

2.5 Poverty and Inequality

The first democratic government inherited a nation which was characterized by high levels of poverty reflected in its racial and regional dimensions.

According to a 1993 World Bank/UCT household survey, between 30 % and 50 % of households could be regarded as poor, depending on the definition used (see Tables 2 and 3). Moreover, 75 % of the poor lived in rural areas.

Table 2: Poverty Levels: 1993 - Comparison of selected poverty lines

Type of poverty line	Month cut-off in Rand	Population below the poverty line
Population cut-offs at the:		
a) 40th percentile of households ranked by adult equivalence	301.0	52.8
b) 20th percentile of households ranked by adult equivalence	177.6	28.8
Minimum caloric-adjusted per capita intake (at 2500 Kcal per day)	185.4	42.3
Minimum Living Level	164.2	44.7
Supplemented Living Level	220.1	56.7

Source: World Bank, 1995

Table 3: Distribution of poverty, 1993

Location	Share of Pop. (millions)	% of Pop.	Poverty Share (%)	Poverty rate (%)
Rural	20.3	53.4	74.6	73.7
Metropolitan	9.9	26.1	9.8	19.7
Urban	7.8	20.5	15.7	40.5
All	38.0	100.0	100.0	52.8

Source: World Bank, 1995

Co-existing with these high levels of poverty are extreme levels of inequality of income and wealth. South Africa has long been at the top of the inequality league with measured Gini coefficients up until the 1980s being second only to that of Brazil.

How are poverty and inequality changing since the advent of the country's first democratic government?

Some recent evidence suggests that the gulf between South Africa's rich and poor has widened since 1994. This has been ascribed by some analysts to the growth in inequality stemming from world trends, including industrial restructuring in the face of fierce international competition, combined with a decreased demand for unskilled labour and rising demand for professional skills.

A study on income distribution undertaken between 1991 and 1996 by an economic consultancy, WEFA Southern Africa, shows that the rich continued to grow richer, while the poor lost further ground, especially within the black community. The study shows that Africans' share of national income rose to 35.7% in 1996 from 29.9% in 1991, while the white share fell from 59.5% to 51.9%. According to a 1998 revision of the 1996 census, Africans make up 76.7% of the population while whites comprise 10.9%.

The study showed also that more than 90% of the increase in the income of blacks stemmed from economic growth with less than 10% attributable to a redistribution away from whites.

This changing face of wealth has mostly benefited the emerging black middle class, with the proportion of black households in the richest 10% of households increasing from a mere 2% in 1975 to 9% in 1991 and 22% in 1996. However, the poorest 40% of black households saw a 20% fall in their incomes from 1991 to 1996.

Some analysts (e.g. Nattrass & Seekings, 2000) suggest that poverty and inequality in South Africa are rooted in the labour market: in part in low wages, and in part in very high rates of unemployment. Whereas inequality until the 1970s was determined largely by the gap between white and black incomes, inequality is now primarily driven by (a) inequality within the distribution of wages, and (b) by the fact that at least 25 % of households have no wage income at all.

One of the main factors driving these patterns is the loss of formal sector jobs and the shift towards higher skills. Between 1991 and 1996, there was an 80% increase in blacks employed in highly skilled occupations. Over the same period, the total number of blacks employed fell by 2%, with the unskilled and semi-skilled bearing the brunt.

The gold mining industry has shed more than 200 000 jobs from a peak of 530 000 in 1987. Companies that enjoyed state protection during the apartheid era now find themselves exposed to global competition. Even though the economy has grown, jobs continue to be lost and newcomers to the shrinking job market are forced to join the swelling ranks of the unemployed.

According to another WEFA study on employment prospects in SA, at least 142 000 jobs were lost in 1997, when the economy grew by 1.7% - and the labour force grew by about 320 000.

A recent report by UNISA's Bureau of Market Research highlights persistent regional inequalities. The report points to the sharply differing levels of the human development index for the various provinces. The HDI is an indicator of life expectancy, educational attainment and income used by the UNDP. The relative standing of the provinces has changed slightly with small gains being made by Mpumalanga and the Western Cape over the past five years. Gauteng and the Western Cape have the same ranking in terms of the HDI at 0.73. That is similar to a middle-income country like Turkey. By contrast, the Northern Province - the poorest province - has a HDI of 0.57, close to that of Zimbabwe, which ranks 130th in the index. Personal disposable income in Gauteng is more than three times that of the Northern Province. Overall, South Africa has a HDI of 0.67, which means that it is well short of the 0.8 which the UNDP considers necessary for a high level of human development. These provincial inequalities are reflected also in the huge differences in personal per capita income (Table 4).

**Table 4: Provincial Inequalities:
personal disposable income per capita, 2000**

Province	PDI (Rand)	Province	PDI (Rand)
Northern Province	6 021	Free State	12 334
Eastern Cape	7 792	Northern Cape	12 481
North West	9 693	Western Cape	20 777
KZN	10 592	Gauteng	25 988
Mpumalanga	11 088	SA	13 502

There is little doubt that there are many chronically poor people in South Africa today and that this country is still one of the most inequitable in its distribution of income and wealth. The limited evidence suggests that absolute poverty may be declining since 1994 not because of employment

creation (because this is not happening) but primarily because of the extension of social security grant provision to the previously excluded African population. However, new forms of inequality may be replacing the 'traditional' white:black division of income and wealth. It is likely, for instance, that intra-racial and urban-rural differences have been exacerbated in the first years of the new dispensation. The correct answer to the question about what has been happening to poverty and inequality since 1994 is that "we do not know". This is because there is not yet in place an appropriate poverty monitoring system which would enable government to track the changes in poverty and inequality in the country as a whole. We know that there is poverty, but we know less about who the poor are and where they are specifically located. To obtain answers to these questions, government has to put in place, through Statistics South Africa, appropriate data collection instruments that would enable it to obtain the necessary information about the poor.

2.5 The Social Sector

The provision of social services (education, health, housing and welfare services) to the historically-disadvantaged sections of the population was deemed to be a high priority in the government's Reconstruction and Development Programme (RDP) introduced in 1994. Government has attempted to ensure increased access to these services through substantial nominal increases in the Social Sector budget even within the context of a tight fiscal policy. For instance, education expenditure increased from R34 billion in 1995/96 to R45 billion in 1998/99, an average annual increase of 2 %. Total education expenditure is expected to reach R52 billion in 2001/02. Health expenditure, on the other hand, is expected to increase from R17 billion in 1995/96 to R27 billion in 2001/02 and welfare expenditure from R14 billion to R21 billion during the same period.

In spite of increased expenditure, serious questions remain, particularly in regard to access and quality of provision in all three sectors of education health and welfare. In education, the issues of concern relate primarily to the increases in personnel costs, the ability of the state to provide classrooms and learning materials, attaining qualitative improvements in education and improving teacher productivity. Similarly in health, in spite of increased expenditure, many poor people are still denied access to primary health care and urban hospitals are grossly overcrowded. In the welfare sector, welfare services appear to be seriously neglected and the department has shown itself to be unable to effectively perform its poverty allevi-

ation role. Moreover, there is a question mark hanging over the sustainability of social security expenditure. As de Bruyn et al (1997) have shown, while expenditure on education and health in particular have increased substantially in nominal terms, the key issues relate still to the efficiency and incidence of public expenditure.

Furthermore, on the financing of education itself, Government responds to criticism about the perceived lack of progress in education by pointing to the high level of expenditure in this sector in international terms both in respect of its share of the total budget and as a proportion of GDP. No one has yet challenged this conventional wisdom by questioning whether these benchmarks are appropriate in the context of the inherited inequalities in education provision. On the efficiency of expenditure question, in education it is evident that the most important task is to improve quality of provision. As de Bruyn et al (1997) have shown, amongst the factors impeding the improvement of student achievement are the inadequate provision of facilities and the distribution of expenditure between its current and capital components. On the incidence of expenditure, it is clear from the limited data available that there is a need to strengthen the commitment to distributing education funds through a system that explicitly favours schools in disadvantaged communities. Similar arguments can be made about the efficiency and incidence of health expenditure.

Social sector expenditure (education, health, housing and welfare) increased substantially during the first term of the democratic government. In spite of this increased expenditure, serious questions remain with regard to access and quality of provision in education, health and welfare. Moreover, there are key unresolved issues relating to the efficiency and incidence of public expenditure on the social services. Education and training, and human resource development in general, are the key to economic success and development. We need to ask also whether the levels of expenditure (although high) are adequate in the light of the magnitude of the inherited inequalities.

2.6 The Challenge of Globalisation

Globalisation has ensured that the world has become a smaller place especially during the past decade. The constraints of geography on economies, politics and societies have been gradually receding as intensification of worldwide social interactions are shaping events within boundaries beyond the nation state.

Most countries have privatised state assets, have opened their economies to foreign investment, and have export-led strategies for economic growth. This combination was supposed to spur growth, employment and an overall improvement in the living conditions of citizens around the world. However, the financial crisis of 1997/98 demonstrated the vulnerabilities of the process of globalisation and the growing inequality gap between the haves and the have-nots within societies and between countries that have participated in this globalisation process.

Even in the United States, the growth economy of the 1990s, the income of the poorest 20% of households has declined steadily since the 1970s, while the richest 1% has increased its income by more than 100%. At the global level, the ratio of average income of the richest country in the world to that of the poorest has risen from about 9:1 at the end of the 19th century to at least 60:1 today. The most recent Human Development Report of the UNDP further highlights today's global inequalities by stating that "differences in income and living standards have reached grotesque proportions....with the (gap between) the richest fifth of the world's people and those of the poorest fifth (widening) from 30:1 in 1960 to 74:1 in 1995".

There is an ensuing debate among economists and other social commentators regarding the causes of the widening gap between rich and poor, and the extension of poverty in some parts of the world. Slow or no growth in a national economy, limited educational and technological skills, restricted markets in the north for exports from the developing world, corruption and bad management, and the absence of "sound" macroeconomic policies are some of the main reasons put forward by experts on the subject.

Comparative research shows that countries which have sound macroeconomic policies and that have gradually opened up their economies to global competition fare better than those less integrated into global markets. The same research shows that growth by itself, though necessary to combat poverty, does not guarantee that the least-protected sectors of a given society will benefit from a growing gross national product, even in the long term. In fact, as the US and other cases show, it is even possible for an economy to thrive and at the same time leave important segments of the population on the margins of economic development.

Historic evidence shows that the most successful nations and regions of the world have been those able to strike a balance between revamping their economies to compete in a global world and providing "safety nets" and

opportunities for the less skilled to adapt to the new environment created by globalisation's dynamics.

In South Africa, the challenge is to ensure that globalisation benefits the many and not the few. There are many aspects to this challenge. For instance, how do we respond to the challenges posed by free trade? How do we ensure that our workers possess the necessary skills that are needed in the globalising world? And finally how do we develop an economy that can be competitive in this global economy?

2.7 The Challenge of Fiscal Decentralisation

The first democratic government has presided over significant political, economic and social transformation. The creation of nine provincial governments with considerably expanded responsibilities, the establishment of over 800 municipalities and the related set of intergovernmental institutions and fiscal arrangements posed enormous challenges.

Some of the major achievements in the development of the intergovernmental system are summarized below:

- 1) The Constitutional Framework, including the establishment of three "distinctive, interdependent and interrelated" spheres of government and the explicit designation of expenditure responsibilities and tax revenue assignment for each sphere;
- 2) The legislative framework and appropriate institutional mechanisms for the successful functioning of the intergovernmental fiscal system. Prominent amongst the former are the Intergovernmental Fiscal Relations Act establishing the Budget Council, comprising the Minister of Finance and provincial MECs for Finance, which oversees the division of revenue between the provinces and other financial matters relating to the provinces. In addition, the Act established the Budget Forum, the analogous body for financial matters relating to local government. The Financial and Fiscal Commission (FFC) established by the Constitution is an independent body which makes recommendations to Parliament on the division of revenue between the three spheres of government. A significant development in the legislative framework is the recent introduction of the Public Finance Management Act which is designed to produce more effective management of finances in all three spheres, including promoting greater

accountability by spending agencies.

- 3) A major development in the development of fiscal decentralisation relates to the changes introduced to the budget process in order to take account of the Constitutional provisions relating particularly to autonomy for the sub-national governments. Allied to these developments in the budget process has been the introduction of the Medium Term Expenditure Framework (MTEF), a three-year rolling expenditure plan, which both enhances financial planning through providing certainty of revenue and promotes financial discipline.
- 4) An innovative feature of the budgeting process has been the development of revenue sharing formulae, based on the recommendations of the FFC, for the division of nationally-collected revenue amongst the provinces on the one hand and amongst the municipalities. These formulae are driven by criteria to reduce inter-jurisdictional poverty and inequalities.

There is little doubt, then, that significant progress has been made in the development and implementation of the intergovernmental fiscal system during the past six years. Nevertheless, several challenges remain. Foremost amongst these are the following:

- 1) Persistent inter-jurisdictional and intra-jurisdictional inequalities: Although the revenue-sharing formulae and the national government's conditional grants go some way towards addressing regional inequalities, between provinces and between municipalities, developmental needs are still enormous, especially in provinces that inherited the Bantustans.
- 2) Institutional and human resource constraints: development in the sub-national government spheres (provinces, municipalities) is hampered by serious institutional and human resource constraints relating particularly to budgeting and financial management, information technology and monitoring and evaluation. This in turn, affects their capacity to deliver services efficiently.
- 3) Absence of an effective policy co-ordination framework, to align the policy development activities of the national government and the policy implementation activities of the sub-national governments. There are currently weak and/or ineffective structures to enhance co-ordination

between the three spheres as well as weak linkages between co-ordinating ministries such as finance, provincial and local government and public service and administration.

A serious gap in the Policy Co-ordination framework also is the absence of a Medium Term Strategic Framework (MTSF) to complement the Budget and the Medium Term Expenditure Framework. The consequences of this are two fold: first, all policy development is given equal priority; second, the budget is seen as the main policy making instrument.

3 Conclusion

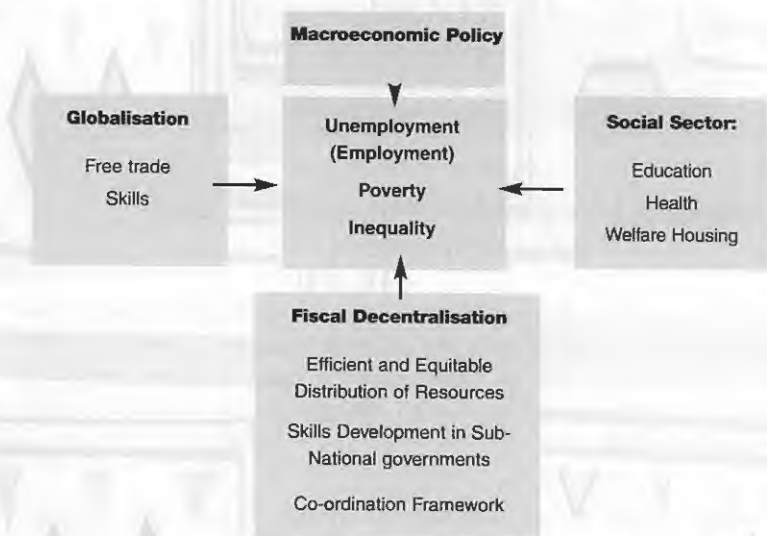
This paper has served to document six key socio-economic challenges that face South Africa. This concluding section makes two broad points. The first is that it is necessary for policy makers to recognise the linkages between these challenges and to think seriously about how we can develop policy in a consensual fashion to address the challenges of unemployment, poverty and inequality.

One of the most important lessons from the emerging market crises of the past two years is that there is more to life than macroeconomics. Sound monetary and fiscal policies may be vital to economic success, but good government, robust financial systems and effective social provision also matter.

The diagram on the following page attempts to illustrate rather crudely the inter-relationships referred to above. The nature and direction of policy making will determine whether these relationships will have a positive or negative dimension.

The second point made here (and which is related to the first) is about the need for a comprehensive approach to development. The virtues of a "holistic" approach to promoting development have been recognised for years, but the complex mix of national governments, international institutions, private sector players and civil society has for too long been seen as ill-equipped to deliver.

As we ponder the development of a holistic approach to development, we have to ask ourselves some difficult questions. Is it realistic to hope for a national consensus over a development strategy in an often fractious



society such as ours? Will donors and other development players co-operate and specialize, or will they see the structure as the battleground for an institutionalised turf war?

It is early days yet in the development of such holistic development strategies. However, we may want to look at the experience of Bolivia, which has already pioneered a similar framework. Its President has shown that it is possible to develop a national consensus through what he called a "Dialogo Nacional". Bolivia's development framework has the overall objective of poverty alleviation, with the subsidiary objectives of boosting sustainable economic growth, promoting greater equality, improving government and extricating the country from the cocaine industry. A matrix describes what the government, the multi-lateral institutions, the private sector and non-governmental organisations are trying to do in each area.

It is conventional wisdom now that efforts should be measured by outputs rather than inputs, but the holistic approach moves a step further to outcomes. Looking at the development challenge as a whole will make it easier to identify policy problems that may be tougher to address in the short term but which, if solved, will break a log-jam and allow success in other areas.

RELATING HUMAN DEVELOPMENT TO ECONOMIC GROWTH

BY VIVIENE TAYLOR

THE HUMAN DEVELOPMENT REPORT 2000 OF SOUTH AFRICA

Human Development is about transformation to promote the interests of all, especially the most marginalised and poorest members of society. While South Africa's first national Human Development Report in 1998 focused on HIV/AIDS and its devastating impact on all spheres of life, the 2000 report focuses on transformation.

Six years after its first democratic elections, South Africa is moving from the politics of transition to the consolidation of state power within a representative democracy. Government has embarked on a significant programme of state restructuring in order to advance and protect the fledgling democracy. That South Africa is being transformed is beyond dispute. What is the character of this transformation? Can it be sustained under current conditions? Does it contain fractures and fissures? And if so, what can be done to repair them? South Africa's Human Development Report 2000 provides a critical analysis of these questions.

The report reviews the processes of transformation through the institutional frameworks established by government, as well as through the prism of race, class, gender and spatial inequalities. It also looks at the question of who determines the transformation agenda and who benefits from the outcomes. The Report reviews the processes of transformation through institutional frameworks, as well as through the prism of race, class, gender and spatial inequalities.

THE CHANGED GEO-POLITICAL ENVIRONMENT

As it takes its place in a changed geopolitical landscape, South Africa is confronted with multiple challenges. New alignments amongst regional and global institutions of, largely, economic governance, pose complex challenges for the democratic state. Globalisation creates new opportunities and generates greater risks as national borders become permeable and the traditional role of the nation state is challenged.

At the same time, processes of social transformation and poverty eradication depend on the extent to which South Africa is able to manage the process of global integration in the interests of human development. The report reflects on how transforming the state within a global system that increasingly sets the pace of development, has created new tensions and modes of engagement between the state, civil society and the business sector.

FROM RACIAL DISCRIMINATION TO 'RAINBOW NATION' AND DEMOCRATIC GOVERNANCE

South Africa travelled a remarkable path in the 1990s. It avoided the civil war many had thought inevitable and, in six short years, established a new, democratic political order, buttressed by social and political stability. The rights and liberties enshrined in its Constitution have justifiably earned respect all over the world. Only a shadow of the legal edifice that supported the apartheid system remains. A disdainful and indifferent civil service is slowly being transformed into a servant of the public. State institutions are being modified to perform tasks they were previously explicitly designed to prevent. For millions of South Africans, there is evidence of change and improvement - from a de-racialised school system and free medical care for small children and pregnant mothers, to electricity grids and water lines that now reach households living in new houses built with state subsidies.

The report reveals some of the main elements of transformation and democratisation and their relationship to governance in South Africa. It highlights key features of the state, its instruments and the way it engages with civil society and market forces as it responds to human development imperatives at the beginning of the new millennium. The analysis of the state of human development in South Africa is located within South Africa's experiences of colonialism, racism, patriarchy and cultural domination. It is precisely because of the fragmentation and gross inequalities that characterise South Africa that the report calls for the implementation of a shared vision of transformation, one that may be implemented through collective endeavours. As broadly sketched by former President Nelson Mandela, government committed itself:

"to bring fundamental change to the lives of all South Africans, especially the poor; to recognise the actual contradictions in our society and to state them boldly, the better to search for their resolution; to avoid steps that further worsen social conflict, and to build our new nation by continually and consciously exorcising the demon of tribalism, racism and religious intolerance."

Three salient goals emerge: improving the lives of the poor majority, maintaining social stability and building a nation that is inclusive and non-discriminatory.

Thus, formal democratisation, state reform, expanded delivery of social services, job creation, poverty alleviation and all aspects of development may constitute elements of transformation. The achievement of these goals may, however, be ephemeral and limited unless it occurs within the framework of a transfer of power -particularly economic power.

GOVERNMENT INDICATORS OF TRANSFORMATION

The benchmark for the new government's economic and social policies and initiatives was contained in the Reconstruction and Development Programme (RDP) and the Growth, Employment and Redistribution (GEAR) plan. In the RDP White Paper, government committed itself to:

- ▶ Creating productive employment opportunities for all citizens at a living wage;
- ▶ Alleviating poverty, low wages and extreme inequalities in wages and wealth;
- ▶ Meeting basic needs and ensuring that every citizen enjoys a decent standard of living and economic security;
- ▶ Democratising the economy and empowering the historically oppressed, particularly workers and their organisations;
- ▶ Removing racial and gender discrimination in the workplace;
- ▶ Developing a balanced and prosperous regional economy in Southern Africa, based on the principle of equity and mutual benefit.

Together, these commitments constituted the government's yardstick for socio-economic transformation. Officially, they remain key goals for the ANC. The fundamental question the report examines is the extent to which these commitments are understood and implemented across all sectors of government, business and civil society more broadly. Theoretically, transformation is captured in the notion that the South African state and society must change fundamentally if they are to move from autocracy, dictatorship, extreme poverty and inequality to substantive democracy and people-centred develop-

ment. Many, however, have experienced transformation differently.

The various chapters in the report express a new urgency for transformation. It highlights the need to extend beyond the political sphere in order to deal with people's experiences of economic and social marginalisation. The fact that the benefits of democracy are neither shared nor experienced by the poorest members of society is reflected throughout. However, in Chapter Two, both subjective and objective indicators of human development amply demonstrate the increasing poverty, inequality and alienation of people from the state.

AN AGENDA FOR A HUMAN DEVELOPMENT DRIVEN SOCIETY BY 2010

The promise of the struggle for emancipation will ring hollow if South Africa does not translate political freedom into human development. Human development is not an option. Indeed, if there is to be social and political stability and economic growth, it is an imperative. Human development is the process of enlarging people's choices and raising levels of well being. It is a holistic, integrated process in which economic and political forces continually interact with one other in dynamic and diverse ways to improve the lives of and opportunities available to the poorest people.

For South Africa, sustainable human development implies a rapid process of redress, social reconciliation, nation-building and economic growth with equity alongside the sustainable utilisation of natural resources. South Africa's journey of liberation and transformation highlights the importance of pursuing the human development process in an environment that promotes equity, affirmation, self-respect, participation and human rights. If this is not done, the time bomb of poverty, accompanied by related pathologies and some of the worst forms of violence - particularly against children, women and the elderly - will erode the legitimacy and power of the democratic state. The general rhetoric of transformation can no longer mask the continuing inequalities and pain visited on families, households and communities, where fear, survival, food security and violence are pervasive.

The report also cautions against the use of conventional economic indicators to provide evaluations and forecasts of economic performance without examining what is happening within the household sphere. The application of conventional measures not only depoliticises, but also desocialises, the economy, in line with a logic that separates the economic

from the social. The challenge posed in this report is for government to go beyond measuring the aggregate well being of individuals and to measure, in addition, changes in institutional and structural conditions. Furthermore, an attempt is made to develop both objective and subjective criteria in order to measure human progress and transformation.

The central question is, therefore, how to measure transformation and sustainable human development? What types of proxy indicators can be used to measure development and transformation? The report uses institutional/structural (policies/systems), normative (values, standards, attitudinal or change in organisational behaviour/culture, social solidarity/cohesion) or functional (service delivery/distribution of goods and services) as indicators of development and transformation.

Further, in order to provide a human face to the indicators used, the views of people are profiled.

South Africa is considered to have a medium human development ranking, comparing well with other countries. The 1999 Human Development Report ranks South Africa at 101 behind Brazil. The estimated Human Development Index value of 0.628 (calculated with 1997 statistics) placed South Africa at 116 in the ranking. Based on this estimate, South Africa compares well with other African countries and ranks seventh behind Mauritius, Tunisia, Cape Verde, Algeria, Swaziland and Namibia.

In the southern African region, South Africa ranks third behind Swaziland and Namibia. South Africa's estimated HDI of 0.628 is also higher relative to the average HDI of 0.430 for Sub-Saharan Africa, but slightly lower than the average of 0.637 for all developing countries. If one assumes no HIV and a constant growth rate in population and incomes, then South Africa's human development is expected to be 0.645 in 1999 and 0.654 by the year 2010 - based on a growth rate of 0.3 % per year between 1996 and 2010. However, this prediction drops drastically with HIV/AIDS.

South Africa's rate of poverty (a measurement of the extent of absolute poverty) is 45 %. This translates into 3 126 000 households or more than 18 million citizens living below the poverty line (pegged at an income of R353). In mainly rural provinces, the figure rises above 50 %.

A closer look at measures of human development reveals more precise contours of inequality and poverty. The experience of extreme poverty is

dramatically concentrated among Africans: 57.2 % of Africans live below the poverty threshold, compared to 2.1 % of whites. The poorest 40 % of citizens remain overwhelmingly African, female and rural. According to Statistics South Africa, twice as many female-headed as male-headed households are in the bottom quintile (26 % compared to 13 %). When race and gender are aggregated, the figure rises to 31 % of African, female-headed households in the lowest quintile, compared to 19 % of African, male-headed households. Overall, the poverty rate among female-headed households is 60 %, compared with 31 % for male-headed households. This underlines the need to prioritise African women in social welfare, job creation, training and small business development programmes.

Views of a cross-section of some of the poorest citizens canvassed during the preparation of the report were also illuminating. Their perceptions of transformation since 1994 - of what has changed and what has remained the same for the poorest in the country - were mixed. All those interviewed indicated that there are fundamental changes at the political level. People are beginning to see themselves as citizens with the right (if not the ability) to participate actively in all aspects of life. However, they indicated that this right is meaningless when, for many, grinding poverty remains the reality. People experience transformation as slow, contradictory and insufficiently participatory (inclusive of ordinary people). A significant trend that emerges is a deep sense of despondency, alienation and disenchantment and the sense of a slow pace of change.

Significant advances have been achieved in establishing democratic institutions, transforming policies and legislation and developing new processes for labour, business, and government to negotiate competing interests. Yet, although these gains entailed politically acceptable risks, the realisation of some of these rights may be stymied by retreats made in other policy areas, especially that of macro-economic policy. The power of international and local organised business to set the pace of change in a market economy imposes severe constraints on government's capacity to reduce social inequality. The extent to which macro-economic policies leave existing power relations intact and reinforce the subordinate position of women and poor people remains a concern.

OVERCOMING THE CONSTRAINTS AND UNDERSTANDING THE CONTRADICTIONS

At the heart of the transition stood two, potentially contradictory, impera-

tives: a formative break with the old order and, at the same time, a considerable degree of continuity with it. In some cases, the contradictions could be resolved. For example, the protection of minority groups' cultural and language rights could fit neatly into the liberal-democratic frame of the new political system. Other constraints related to the retaining of the apartheid civil service and the internal government debt.

The purpose of the "sunset clause" that protected incumbent civil servants from retrenchment was to remove insecurities that might stoke "counter-revolutionary" mobilisation. However, while much has been made of the effects of this "sunset clause" on initiatives to transform state structures, its cost to the fiscus has been its most debilitating outcome. Voluntary retrenchments and golden handshakes became the only "broom" with which the new government could "clean out" the civil service bureaucracies.

Linked to this was one of the most far-reaching oversights (or compromises) of the negotiations period: the leaving intact of the 1989 conversion of the Civil Service Pension Fund from a pay-as-you-go system into a fully-funded entity. This guaranteed full payouts to as many civil servants as chose to leave the service. The effect was to inflate government debt hugely. In 1994, the debt stood at R189,9 billion; by March 1999, it had ballooned to R375,9 billion. Approximately 96 % of the debt is owed to South African creditors. Crucially, 40 % of the debt load is absorbed by the Civil Service Pension Fund. Debt obligations to the civil service pension fund swelled from R31 billion in 1989 to R136 billion in 1996.

The result was to strengthen calls for fiscal stringency dramatically. High interest payments siphon off funds that could and should be directed at social spending. The contradiction is that, while government is determined to lower the amounts devoted to debt servicing by reducing the budget deficit, this has a direct impact on its ability to lever funds for much needed basic social infrastructure and poverty eradication. Another important factor influencing South Africa's development path is the prevailing view that there are no alternatives to the orthodoxies that shaped development directions in the past.

South Africa marched the final steps of its liberation struggle in an era marked by the collapse or decay of the three main development models that held sway for most of the century. These were the Soviet model (associated with "really existing socialist" states), the welfarist model (that at times characterised North America, the United Kingdom and Western Europe) and the developmentalist model (expressed in a variety of experiments in

Africa, Asia and Latin America). The lack of an appropriate model that, theoretically, privileged human development over pure economic growth (or at least attempted a "humane" balance between the two imperatives) and the hindsight afforded by the dissolution of these development models has severely constrained government in its search for a development path.

The perception was that, in the current phase of globalisation, an economy stricken with weaknesses has no choice but to bend visibly to market sentiments if it is to avoid chronic instability. Government's overarching framework and vision for development, the RDP, was consequently adapted through the GEAR strategy.

Stripped to basics, GEAR sandwiched government spending between two stringent and fundamental prescriptions. First, fiscal austerity (reflected in a drive to bring the budget deficit down to 3 % of gross domestic product by the year 2000) is pursued in order to reduce the total public sector debt, which stood at 56 % of gross domestic product in 1996. Resources spent on interest payments would go instead towards increased social spending, while the share of GDP taken by tax revenue would not exceed a ceiling of 25 %. Second, increased government revenue would result from higher economic growth and, in the short term, increased revenue collection.

Growth would be propelled mainly by an anticipated massive increase in private investment, with real government investment increasing only in the last two years of the five-year plan. Overall, the plan was intended to shift the economy from a dependency on primary commodities onto a path characterised by strong, export-led growth in the manufacturing sector. Government has attempted to achieve advances in that realm mainly via supply-side industrial measures and by designing and promoting several major capital-intensive projects that form part of its Spatial Development Initiatives (SDIs).

Although promoted as an integrated economic strategy - with its various elements allegedly harmonising into a dynamic programme - the plan's main thrust is, in fact, political/ideological in the sense that it constitutes a bid to accommodate diverse market forces with what are considered acceptable adjustments. As many have pointed out, GEAR pivots on an amorphous and intangible variable - investor sentiment - that is presumed to respond favourably to an attractive policy environment.

There is international debate about what combinations of factors attract investment, with strong evidence that, rather than being a direct function of

investor sentiment, investment is "primarily determined by profitability of investment and the complementarity between investment by the state and the private sector". Another consideration concerns what attracts specific kinds of investment.

The conclusion is that, within the current economic framework, FDI will remain highly inconsistent and driven, not by South Africa's job creation needs, but by external factors. The only advantage government has created for itself in this respect are the market-driven SDIs and the accelerated privatisation of big-ticket state assets. The latter is a finite variable that risks evoking strong resistance from the labour movement if extended to parastatals like the electricity utility, Eskom.

In order to make significant inroads into the South African unemployment rate, a sustained annual GDP growth rate of about 6 % is required. This, in turn, demands high levels of total investment - exceeding 25 % of GDP. Yet in the 1990s, domestic fixed investment hovered between 15.5 % and 17.8 % of GDP, reflecting the reluctance of South African firms to invest in the productive sectors of the local economy and the state's gradual retreat from a similar role. This trend was fuelled in the early to mid-1990s by declining profit rates and trepidation about the political future of the country.

Propelled by rising unemployment and lower per capita disposable income, demand levels entered a long-term slump. Also inhibiting demand were the apartheid patterns of social infrastructure provision. The shortage of formal housing and lack of access to electricity, for example, stymied demand for durable and semi-durable goods, stunting the growth potential of the local manufacturing sector. However, a demand-led growth path requires significant levels of state intervention.

Statistics seemed to support the need to boost savings levels. Savings overall had sunk from 30 % of GDP in 1979-80 to 16.5 % in 1996, while government dissaving rose as high as 5 % of GDP in the mid-1990s. Private sector saving had also dropped - from 25 % of GDP in the late 1970s to 19.2 % in 1996. In line with a monetarist view, positive real interest rates came to be seen as an essential instrument for boosting savings levels, with little regard for their throttling effect on investment, output growth and job creation. A high degree of continuity with post- 1989 Reserve Bank policies was affirmed. Importantly, these measures enjoyed the approval of local and international financial networks.

WORKING TOWARDS A DEVELOPMENT FRAMEWORK TO PROMOTE GROWTH AND EQUITY: NEW ADVOCACY AGENDA TO RESPOND TO OLD PROBLEMS

The possibility of marshalling new South-South (and even South-North) alliances in pursuit of a more equitable global economic order exists, and should be pursued with vigour. Simultaneously, practicable, realistic revisions are possible at the national level. This entails a review of the assumptions that underpin current economic policy. These assumptions range from the truism that the economy is "savings constrained" (as opposed to "investment constrained") to the utility of current monetary policy, the relaxation of capital controls, the role of foreign investment in the economy and the envisaged revisions to the labour regime. South Africa's economic potential - and importance - within the African context, its low levels of foreign debt and the organised, popular support that can be harnessed behind a quest for alternatives constitute a sound basis for such an endeavour.

This work must be converted into a call for urgent shared action to reverse the economy's job-shedding character, a structural feature that predates the introduction of GEAR and the advent of the democratic order.

Along with the HIV/AIDS pandemic, unemployment poses the gravest threat to South Africa's developmental achievements and goals. Successfully addressing these crises requires urgent action that extends beyond the labour market to macro-economic policy, industrial strategy, investment frameworks, poverty eradication, an integrated HIV/AIDS strategy and a rural development strategy. In all these respects, there seems to be a substantial need and latitude for more direct state intervention. This must be supported by civil society and business, which must share responsibility for such interventions.

At the same time, the socio-economic hardships and disruption that radiate through households, families and communities when jobs are lost make the protection of existing formal employment a priority for government. The protection and promotion of work opportunities as an effective measure to address income poverty must be supported by agreements between labour, business and the community sectors. Government's ability to come up with coherent consensus-based strategies and to manage its responsibilities is a crucial variable in any development path. The transformation achieved in the political sphere can be extended to the economic and social spheres, provided that government, business and civil society organisations, including labour, share

the responsibility for negotiating and implementing the required changes.

STRATEGIES AVAILABLE FOR SUSTAINED ECONOMIC GROWTH WITH HUMAN DEVELOPMENT

Strategies available include proposals aimed at addressing systemic constraints on economic growth, job creation and redistribution in the economy. These hinge on a set of integrated (short- and long-term) policies that seek to link macro-economic policy and industrial strategy with human development. Prominent in them are recommendations that:

- ▶ the fiscal deficit be allowed to fluctuate within a band - depending on the size of the social deficit and the level of unemployment - rather than observe the rigid target of 3 % currently pursued by government;
- ▶ a "solidarity tax" be levied on wealthier South Africans as a short-term measure to deal with the financing of apartheid backlogs;
- ▶ a prescribed asset requirement be imposed on the financial sector, including worker provident/pension funds, to raise capital for social investment.

The primary challenge for government is to devise ways to lever higher levels of domestic private investment and to harmonise them with an overarching development path that is geared to reducing inequality and poverty.

Monetary policy

Progressive adjustments to monetary policy are part of a realistic route. During 1998, a broad consensus developed around the need to revise monetary policy.

Capital controls

At the moment, government remains committed to the gradual but eventual complete lifting of capital controls. There is a pressing case for a revision of this stance.

Industrial policy

Industrial policy needs to be synchronised more closely with macro-economic adjustments. The current broad framework already offers several opportunities for more direct steps. Incentives built into investment

promotion and industrial development programmes (particularly SDIs) should explicitly and strongly favour job creation.

Effective labour market policies

Labour market policies critically require shared commitment. A piecemeal dismantling of the post-apartheid labour regime must be prevented. It is in the crucible of labour relations that the enigmatic dynamics of class, gender and race in South Africa become manifest. The guiding principle must be the recognition that the "transformation of the apartheid labour market, characterised by segmentation, inequality and exploitative relationships is an important aspect of broader social transformation".

National budget

Another essential element of macro policy management is the national budget. The budget has the potential to become one of the most effective redistributive policy instruments. However, while government actively promotes budget reprioritisation in favour of critical social and political imperatives, the budget process itself needs to be transformed in order to promote greater transparency, accountability and negotiation on priorities between government, parliament and civil society.

Addressing inter- and intra-provincial inequalities

Neither inter- nor intra-provincial inequalities have been fully addressed. While the former may be addressed at the national level by making adjustments in the allocation formula, the latter lies within the control of provinces and is thus more difficult to address through national policy. The national norms and standards provision, designed to deal with intra- provincial inequalities, has not been implemented. Addressing staffing rigidities could provide more opportunities for defining national norms and standards.

Strengthening intergovernmental financial relations

The use of the Section 100 constitutional powers of oversight and supervision by the national government when allocating "bailouts" to assist provinces with expenditure shortfalls points to uneven relationships between national and provincial governments. Stringent conditions have been attached to these "bailouts". Asymmetry is acceptable and may even be required to build the capacity of provinces, provided the bounds of

intervention are strictly defined and their mode supportive.

Prioritising collective responsibility for poverty eradication

The scale and depth of poverty and its related problems calls for shared action within an integrated comprehensive strategy that is responsive to the needs of the most vulnerable and excluded people.

Addressing income poverty

Measures to ensure that there is adequate social protection for all, including the working poor and those not in paid work, are critical interventions required of government, business and citizens. Such measures should combine employer/employee-based contributions, as well as social assistance or transfers provided by the state where paid work is not available.

Generating sustainable livelihoods

There must be concerted attempts to ensure that the majority of the poor in South Africa gain access to remunerative employment. Central to such attempts is the need to ensure economic access and productive returns for those who have been outside mainstream economic activity. Livelihood generation must involve sustained and creative ways of securing both income and meaningful work roles that build on the capacity and ingenuity of poor people themselves.

Asset development and effective redistribution

Income measures and sustainable livelihoods depend on the asset base of households and communities. Access to land, credit, training and education is critical. Furthermore, effective redistribution of assets requires that poor women are able to acquire assets as well as have control over them. Building the asset base of households and communities also involves providing tenure (land, housing) and the capacity for household and community self-management. Such measures are key to both economic empowerment and food security. In this regard, government needs to accelerate its land redistribution initiative.

Promoting capability measures

Access to education (both formal and non-formal), health care, basic social services and social infrastructure are essential requirements for human development and effective participation by people in all spheres of

activity. National agreement on minimum requirements in respect of social service provision is urgently required.

Facilitating social and economic integration

High levels of violence, crime and social alienation are the result of the wanton breakdown of black family and community life during apartheid. They remain a feature of South African society. Growing and persistent inequalities and joblessness have eroded the moral and social values of communities. Crushing poverty, fuelled by anger that the benefits of democracy have not resulted in tangible gains for the poorest, perpetuates an environment of fear and increases social marginalisation.

Government, business and civil society organisations need to come together to negotiate policy and programme shifts to ensure that economic growth strategies within a market economy do not lead to a market-driven society. Promoting a competitive environment in which the "survival of the fittest" is ensured, such a society will simply reinforce and reproduce the inequalities of apartheid. Consequently, the promotion of social integration needs to be understood as a national imperative and to become a shared responsibility that spans all sectors of society.

THE CHALLENGE: RECLAIMING GOVERNANCE FOR HUMANE DEVELOPMENT

Extending the achievements and successes in transformation

Government's commitment to institutional transformation has been demonstrated at the policy level through a set of wide-ranging policy documents (Green and White Papers) and legislative interventions. These are designed to transform the public sector into an agency that is coherent, transparent and representative, as well as capable of achieving the crucial goals set for it by the people and government of South Africa. Many of these policy initiatives have been in line with, and sometimes exceeded, international best practice. In addition, the 1996 Constitution (including the Bill of Rights) has been widely acclaimed as one of the most liberal and progressive examples of its kind. The government's new labour legislation conforms to ILO standards. The promotion of women's empowerment and gender equality (as exemplified, for example, in the establishment of the Gender Commission, the ratification of CEDAW) is a significant milestone. In addition, South Africa has risen from 141st to seventh in the world in terms of representation of female MPs.

Moreover, the move to establish transparent and accountable government has been demonstrated by government's willingness to submit itself to scrutiny not only through a free press, but also through critical investigations and the enactment of the Open Democracy and Administrative Justice Acts.

Impressive though some of these achievements have been, they have, in many ways, done little more than scratch the surface of the many socio-economic problems and imbalances bequeathed by apartheid. Serious problems of unemployment, poverty and inequality continue to exist and, as the government itself has acknowledged, much more needs to be done to address them. This is, in many respects, hardly surprising, given the daunting task faced by the new democratic regime in tackling the apartheid legacy. The challenges are many. They include the urgent need to satisfy the popular expectations raised by the transition to democratic rule. Effective ways of mediating the wide range of competing political, social and economic pressures that continue to be advanced by different social forces in the country must be strengthened. There is a need to work together to reconcile the almost universal tension between the internal needs of bureaucracy and the needs of citizens, in order to accelerate service provision within a caring society. There is also a need to negotiate the difficult path between political democratisation and economic liberalisation and to confront the many challenges posed by South Africa's integration into the region and global economy.

Moreover, if government is to resolve the discontinuity between policy objectives and outcomes, it will need to distinguish more clearly between ineffective implementation (resulting from a lack of capacity, particularly funds, rather than a commitment to the implementation of government policy) and non-implementation (resulting from a lack of compliance with such policy). As the decentralisation process moves forward, it will be important to devise appropriate and differentiated strategies for addressing these two issues. Whilst more effective forms of support for departmental, provincial and local government capacity building will help address the issue of ineffective implementation, it is also necessary to introduce a more rigorous system to tackle the issue of non-compliance with the transformation agenda.

Greater energy needs to be devoted to forging the kinds of creative partnerships between the state and civil society envisaged in the RDP. Since 1994, there has been discernible movement from the inclusive civil society forums that characterised the early phases of the transition towards a more social corporatist approach (particularly through the NEDLAC framework)

that has privileged business and labour over other civil society organisations.

The need for more effective forms of partnership between the state and civil society has been bolstered by recent research, which has demonstrated that the increased capacity of the state is positively, rather than inversely, correlated with the increased vitality of civil society. As civil society grows more robust, the capacity of the state to govern is increased.

During the period of negotiations and the government's first term in office, efforts were made to build a consensual basis for post-apartheid rule and transformation endeavours. Institutionally, these attempts were most marked in the realm of labour relations and economic policy, with various mediation and arbitration structures and the National Economic, Development and Labour Council (NEDLAC) constituting the flagships of those efforts. Although transformation in the first six years of post-apartheid South Africa has been dominated - indeed, defined - by government-initiated and -managed changes, there are strong signs that the next few years will be shaped more decisively by struggles mounted from within civil society, in particular the labour and civic movements. There are cracks in the edifice of the progressive alliance that shaped post-apartheid social and political organisation. This must also be examined alongside the demobilisation and depoliticisation of the non-governmental development sector.

The participation of community representatives and organisations in new partnerships with government and business could be enhanced through the provision of financial assistance and by identifying connecting points for engagement. Furthermore, the tendency to substitute issues of distribution (power and resources) with the need for efficient management within the public and non-governmental sectors is cause for concern. In developing a shared responsibility for transformation, it is important for all partners to understand that different sectors bring different but critical qualities to the process. The role of government cannot be substituted by civil society organisations or by market forces on the basis of efficiency arguments.

Attempts to shore up a platform of stability have encountered the enduring reality that post-apartheid society is shaped not only by the activities of a benign state committed to fulfilling the aspirations of the majority, but also by the activated interests and demands of conflicting social forces. It is within this reality that the priorities outlined in the report call for shared responsibility if democratic gains are to be experienced by all.

THE STATE WE'RE IN - A VIEW FROM COSATU

Overview of the economy

1 996 marked a distinct turn for the worse in the economy compared to the first few years after the democratic elections. Both economic growth rates and investment fell, and in just four years the formal sector lost 10% of its jobs. The slowdown was not nearly as severe as the recession of 1989-93. Still, it meant that output per person declined in the past four years. The worsening employment situation and cuts in government spending aggravated income inequalities. The economic slowdown resulted, in part, from international financial crises in 1997 and 1998, which led to a substantial outflow of capital. But it also reflected policy failures. As a strategy, GEAR explicitly aimed to stabilise the economy in response to the world financial crisis in 1997. While South Africa weathered the 1998 crisis fairly well, the last four years have not brought adequate growth or greater equity. Analysts are currently predicting an upturn in the economy, with growth over 3%. That would mean real growth in per-capita income. Government argues that manufacturing has now adjusted to lower protection and subsidies, so that it can now compete internationally and attract investment. But government has not articulated pro-active policies to ensure that economic expansion translates into large-scale employment or greater equality in incomes and wealth scale. To this day, government has failed to produce an industrial policy, despite requests by Nedlac, and the Alliance. Moreover, restrictive fiscal and monetary policies seem likely to cut into the expected boom, in part by causing more job losses in the public sector.

Employment

Since 1997, one in ten workers in the formal sector outside of agriculture has lost their job. The biggest losses took place in mining, construction and transport, with growth only in wholesale and retail trade. The available evidence suggests some increase in informal sector employment to compensate for the job losses, but obviously these activities are worse paid, less secure and more dangerous than formal work. As Table 1 shows, since 1990 employment losses have gone through three distinct phases, with substantial downsizing in 1990-93, stabilisation in the next four years, and then renewed job losses in the past three years. As a result, almost 20% of formal jobs have disappeared since 1990. The stabilisation phase after 1994 may reflect a statistical anomaly, since until then national statistics did not include workers in the former TBVC.

Table 1. Changes in formal employment, 1990-2000

Sector	Employment in 2000	% of private formal employment in 2000	Change, 1997-2000		Average annual change			% of formal job losses*	
			Number	Percent	1990- '93	1993- '97	1997- 2000	1993- '97	1997- 2000
Mining & quarrying	421 000	Calculate the %	-138 000	-25%	-7%	0%	-9%	36%	33%
Manufacturing	1 278 000	23%	-117 000	-8%	-1%	0%	-3%	18%	28%
Construction	224 000	4%	-90 000	-29%	-4%	-4%	-11%	28%	21%
Transport, storage & communication	222 000	4%	-54 000	-19%	-6%	-2%	-7%	23%	13%
Financial institu- tions	196 000	3%	-21 000	-10%	1%	3%	-3%	-9%	5%
	40 000	1%	1 000	1%	-6%	-2%	0%	3%	0%
Electricity, gas, water	2 382 000	42%	-419 000	-15%	-3%	-1%	-5%	100%	100%
	883 000	16%	119 000	16%	-2%	0%	5%	13%	-
<i>Subtotal</i>	1 100 000	19%	-78 000	-7%	n.a.	-4% ^c	-2%	46%	28% ^b

^a excluding wholesale and retail trade, retail and the public service. ^b that is, the increase in jobs in this sector compensated for 28% of job losses in the rest of the private formal sector. ^c figures for 1995 to 1997 only. Sources: For the private sector, Labour Statistics: Survey of Total Employment and Earnings, March 2000 Statistical Release, P071, 27 June 2000; Labour Statistics: Employment and salaries and wages (Summary), Statistical Release P0200, for June of other years; agricultural employment from 1990 to 1996 provided by SSA on the basis of Agricultural Surveys, Report no. 11-01-01; for 1998, from OHS 1998; for the public service, PERSAL.

Table 2. Job losses within manufacturing, 1994-2000

Industry	Employment in March 2000	% of manufacturing employment, March 2000	Change, 1996-2000		average annual % change		% of job losses, 1996-
Basic metals, metal products and machinery	222 000	17%	-54 000	-19%	2%	-5%	35%
Textiles, clothing, leather	220 000	17%	-40 000	-15%	7%	-4%	26%
Electrical machinery	71 000	6%	-33 000	-31%	-3%	-9%	21%
Non-metallic mineral products	46 000	4%	-30 000	-39%	-2%	-12%	19%
Food, beverages, tobacco	196 000	15%	-12 000	-6%	-1%	-2%	8%
Transport equipment	84 000	7%	-11 000	-11%	5%	-3%	7%
Furniture, manufacturing and recycling	62 000	5%	-10 000	-14%	3%	-4%	7%
Coke oven products, petroleum refineries, etc.	174 000	14%	-3 000	-2%	1%	0%	2%
Professional equipment	22 000	2%	15 000	190%	-7%	30%	-9%
Wood, paper, printing, publish- ing	181 000	14%	24 000	15%	-3%	4%	-15%
	1 278 000	100%	-155 000	-11%	1%	-3%	100%
<i>Total manufacturing</i>	316 000	25%	-72 000	-19%	0%	-5%	46%

* A negative figure means employment grew. ** Includes basic metals, metal products and machinery; electrical machinery; professional equipment.

Sources: For the private sector, Statistics South Africa, *Labour Statistics: Survey of Total Employment and Earnings*, March 2000 Statistical Release, P071, 27 June 2000; Labour Statistics: Employment and salaries and wages (Summary), Statistical Research P0200, for June of other years.

Since 1990, cuts in mining have consistently driven job losses, accounting for about a third of downsizing by the private sector. But after 1997, manufacturing shed over 100 000 jobs, or about a quarter of the vanished positions. In manufacturing, metal and machinery production outside auto suffered the biggest losses, with employment contracting by a third. (Table 2) In contrast, wholesale and retail trade gained 120 000 jobs. As a result, it rose from 11% of private formal employment to 16%.

In the public sector, cuts in the budget ultimately required cuts in employment. The public service lost 78 000 jobs in this period, with a total loss from 1995 to 2000 of around 170 000 or 13%. In real terms, since 1996 personnel spending in the public service has fallen almost as fast as the budget as a whole. State-owned enterprise and local government have also faced pressure to downsize in order to permit cuts in state subsidies. Data on informal, agricultural and domestic employment come from periodic surveys. They suggest that employment in these sectors grew in the past few years at least as rapidly as the formal sector shrank. But these figures include any income-generating activity, including parking cars on the street and hawking vegetables. These activities do not provide a livelihood or raise productivity. They are survival strategies, sometimes only disguised unemployment, that do not address the economic and social consequences of job losses and poverty. Unfortunately, the latest data on employment outside the formal sector appear highly unreliable. The 1999 October Household Survey shows a substantial rise in overall employment in 1998-99, with a small decline in the unemployment rate - from 37.5 to 36.2% under the expanded definition, and from 25.2 to 23.3% under the narrow definition that counts only those actively seeking work. These data are, however, hard to fit in with other trends in the economy. They suggest employment increased by 10% in 1998-99, even as the economy grew only 0.8%. That would mean a massive reverse in the trend toward declining labour absorption with economic growth over the past two decades. Sectoral figures are even more problematic. The bulk of the jobs supposedly created - some 770 000 - are in the informal sector. That would mean the sector grew at the extraordinary rate of 50% in 1998-99. They survey found a 19% gain (or 280 000 jobs) in parts of the tourist trade and the financial sector. Yet these activities lost over 300 000 jobs in the previous three years, and the financial, business services, trade and accommodation sectors as a whole grew only 3% last year. Similarly, the data show growth of 17.5% in agricultural employment, while output rose only 4% in that year. The survey admits the change may reflect the fact that, for some undisclosed reason, subsistence and informal producers in the rural areas

this year classified themselves as employed, where in the past they were classed as unemployed or economically inactive. Very large differences emerge by race and gender. Unemployment remains highest for Africans, especially women, although fewer women are "economically active" - that is, fewer have paid employment or are looking for it. Unemployment for Blacks runs at 38%, compared to 14% for others. Only half of women are economically active, compared to two thirds for men - but unemployment for women runs at 45%, compared to 31% for men. Over half of black women in the labour force are unemployed.

Table 3. Employment and unemployment, 1998

	total population aged 15 to 65 years	not economical- ly active	Unemployment rate*
Total population	25,710	42%	37%
▶ Total women	13,397	49%	45%
▶ Total men	12,312	34%	31%
Total Black	19 427	44%	46%
▶ Black women	10 176	50%	55%
▶ Black men	9 252	36%	38%

*Expanded rate. Source: Statistics South Africa, *October Household Survey, 1998*

After 1994, women and black people obtained more higher-level positions. Still, because of cuts in elementary jobs, their total employment fell. The most important source of jobs for women remains domestic labour, although substantial numbers work as nurses and teachers. Employment levels also vary by province. In the provinces that incorporated substantial areas from the former homelands, unemployment runs as high as 50%. In contrast, in the relatively industrialised provinces of Gauteng and the Western Cape, unemployment lies at around 30%.

Incomes

Overall, the decline in employment went hand in hand with a fall in the share of labour in the national income. By implication, in the aggregate the rise in employee incomes lagged behind the growth in productivity. Moreover, the loss of quality jobs increased income inequalities. The relative drop in labour incomes continued a trend that lasted from 1992 until 1998. In 1992, labour received 57.1% of the national income. Its share dropped to 54.8% in 1997, then stabilised at 55.7% in 1998 and 1999. South Africa has one of the worst income distributions in the world. In 1996,

according to latest Census data, the richest 10% of the population received 57% of the national income, while the poorest 40% got 3%. Income distribution had worsened since 1991. The poorest 40% of black households saw a drop of 20% in income between 1991 and 1996. The continued loss of formal jobs means income inequality deteriorated further after 1996. No aggregate figures exist for income distribution after 1996. But after 1997, household consumption of food, beverages and tobacco - which constitute at least half of purchases by low-income houses - grew slower than either total or luxury consumption, as Table 4 indicates.

Table 4. Household expenditure, 1994 to 1999

Category of consumption	Total consumption, 1999, in R bns	Average annual change	
		1994-1997	1997-1999
Recreational and entertainment	68 000	3.4%	2.4%
Not classifiable by income group	306 000	5.1%	1.1%
Food, beverages and tobacco	155 000	3.2%	0.4%
<i>Total</i>	<i>530 000</i>	<i>4.4%</i>	<i>1.0%</i>

Source: SARB, *Quarterly Economic Review*, June 2000

Incomes are highly unequal by province. As the following table shows, household income in the Eastern Cape, which accounts for about 15% of the population, remains less than half that of Gauteng and the Western Cape.

Table 5. Incomes and unemployment by province

	Population, 1996	Average monthly household income, 1995	% of population in lowest income quintile, 1995*	Unemployment rate, 1996	% urban, 1996
Eastern Cape	6,300,000	2,000	32%	49%	37%
Free State	2,600,000	2,080	31%	30%	67%
Mpumalanga	2,800,000	2,500	17%	33%	39%
North West	3,400,000	2,500	24%	38%	35%
Northern Cape	800,000	2,580	23%	29%	70%
Northern Province	4,900,000	2,580	26%	46%	11%
KwaZulu Natal	8,400,000	3,080	12%	39%	43%
Western Cape	4,000,000	4,420	6%	18%	89%
Gauteng	7,300,000	5,920	5%	28%	97%

*That is, the percentage of the provincial population that falls in the lowest quintile of households, by income, in the country as a whole. Source: Statistics South Africa

Wages

Between 1996 and 1999, nominal wage settlements ranged from just above 7% to slightly more than 11%. In many cases, the increase was higher at the minimum. For the first six months of 1999, the average wage settlement was 8.2%, compared with 9.2% for the same period in 1998. Typically, wages vary according to sector, skill level, region, occupation, education, unionisation, gender and race. As the following table shows, all unions for which data is available won real wage increases (that is, raises above inflation) in 1996-99. While pay hikes varied considerably year on year, the average real increase remained over inflation, although as inflation dropped the nominal increase did too. In 1997, the average increase over inflation came to 1.2%. In 1999, it was 2.6%. In that year, the public service got virtually no real improvement, but NUM, the largest single affiliate, won a substantial raise.

Table 6. Minimum wages for selected sectors, 1998 and 1999

Sector Living	1998	1999	real change	% of Supplemented Level for a family of five
Paper, Paper Products & Packaging	2,240	2,409	0.2%	124%
Food	1,974	2,156	1.9%	111%
Metal & Engineering	1,660	1,950	10.2%	100%
Public Service	1,750	1,872	-0.3%	96%
Local Government	1,550	1,835	11.1%	94%
Glass Sector	1,515	1,820	12.8%	93%
Automobile Industry	1,560	1,677	0.2%	86%
Transport	1,408	1,563	3.7%	80%
Mining	1,262	1,373	1.5%	70%
Wood	1,157	1,250	0.7%	64%
Contract Cleaning	1,022	1,194	9.5%	61%
Building and Construction	1,041	1,150	3.1%	59%

Source: On minimum wages, LRS except for the public service; these figures should be treated with caution as they are only based on a relatively small sample of agreements. For the public service, PERSAL.

Wage differentials in South Africa remain large by international standards. According to the ILO, the gap in pay between engineers and labourers was higher in South Africa than in 20 other countries for which data was available. The ratio between a typical manufacturing employee and a chief executive officer was 1 to 25. This compares to a ratio of 1 to 8 in South Korea, 1 to 10.5 in Germany, 1 to 24 in the United States, 1 to 48 in Brazil and 1 to 43 in Mexico.

Studies show that economies with greater equality enjoy higher levels of economic growth. The struggle for a living wage and closure of the apartheid wage gap therefore contribute to building a stronger economy, as well as ensuring that all workers have an adequate living standard.

Economic Growth

In the decade leading up to the democratic elections, the South African economy experienced a long-term economic downturn, principally due to capital flight as a result of conflicts around apartheid and stagnation in gold mining. The transition to democracy brought a growth spurt, with the economy growing an average of 3% a year between 1994 and 1996. After 1996, economic growth fell back below 1%. With the population growing at over 2% a year, that means production per person declined by over 1% a year. The levelling out in the overall growth rate largely reflected:

- ▶ World financial crises in 1997 and 1998, with the associated outflows of foreign capital from South Africa,
- ▶ Continued stagnation in mining and agriculture,
- ▶ Declines in manufacturing due to increased foreign competition and fall-out from the difficulties in mining, and
- ▶ Cuts in the budget, causing government's contribution to the GDP to shrink.

Between 1996 and 1999, only transport, communications and business services grew substantially, while production actually fell in mining, manufacturing and government. Together, the declining sectors accounted for almost two thirds of all formal employment.

Investment and capital flows

A capital strike, with falling investment, emerged especially after 1998. To sustain rapid growth, investment should take up between 20 and 25% of the economy. In the event, in the past two decades it has been well below 20%. While private investment expanded rapidly between 1993 and 1995, its growth began to slow in the following years. Since 1997, the value of investment has actually declined. As a result, although investment rose from 14% of the GDP in 1992 to 18% in 1995, it dropped back to 15% in 1999. Private investment, which accounts for about two thirds of total domestic investment, fell over 7% between 1997 and 1999. Public-sector investment rose 25% in 1998, mostly because of investment by state-owned enterprise. In 1999, however, dropped 12%.

Table 7. Overall trends in investment, 1994 to 1999

	General government	State-owned enterprise	Private enterprise	Total
Investment in 1999 (billions of rand)	17 900	19 000	83 000	120 000
% of total investment	14.9%	16.1%	69.0%	100.0%
% change				
▶ 1994-1997	16.5%	40.4%	24.7%	25.2%
▶ 1997-1999	-3.0%	25.5%	-7.1%	-2.4%
Percent of GDP				
▶ 1994	2.4%	1.7%	11.0%	15.2%
▶ 1997	2.4%	2.0%	11.8%	16.3%
▶ 1999	2.2%	2.4%	10.3%	14.9%

Source: Calculated from, SARB, *Quarterly Economic Review*, June 2000

Foreign investment has increased steadily relative to domestic investment. Between 1997 and 1999, it came to over half of total investment. About three quarters of foreign investment took the form of portfolio investment, mostly in stocks and bonds. Portfolio holdings are associated with destabilising fluctuations, with substantial capital outflows during the world financial crises of 1996 and 1998. Foreign direct investment grew steadily but relatively slowly, reaching 7% of total investment in 1999. It appeared, however, that almost two thirds took the form of mergers and acquisitions, largely based on the privatisation of state assets. Investment overseas by South Africans grew even more rapidly, and considerably more steadily. In 1997-99, its value equalled about two thirds that of investment into South Africa, compared to under half in 1994-96.

Table 8. Foreign investment into and from South Africa, 1991 to 1999

	1999, in R bns	Totals over period, in nominal R bns.			Nominal change, 1994-99
		1991-'93	1994-'96	1997-'99	
Foreign investment into South Africa	71.5	0.7	71.5	199.4	608%
<i>Of which: Foreign direct investment into SA</i>	8.4	0.7	9.4	29.1	524%
Investment abroad by South Africans	-46.4	-10.4	-33.9	-129.7	709%
Net investment (outflows plus inflows)	25.1	-9.7	37.5	69.8	477%
Investment income paid to foreigners	23.8	17.9	38.3	64.0	138%
Investment income earned by South Africans	8.1	4.4	11.3	20.5	156%
Net investment income earned	-15.7	-13.5	-27.0	-43.5	
Net inflows (investment + earnings)	9.4	-20.6	10.5	26.3	
Total fixed capital formation	119.7	177.8	259.5	353.1	64%
<i>As a percentage of total fixed capital formation:</i>					
Net inflows	8%	-12%	4%	7%	
Total inflows	60%	0%	28%	56%	
Inflows of foreign direct investment	7%	0%	4%	8%	

Source: Calculated from, SARB, *Quarterly Economic Bulletin*, June 2000

Low levels of investment plagued South Africa after capital flight started in earnest in the mid-80s. After that, private investment only picked up when the public sector initiated major projects. From this standpoint, the budget cuts of the past few years, which stalled infrastructure spending, probably constitute a significant cause of the decline in private-sector investment. The Medium-Term Expenditure Framework (MTEF), which projects government spending for the next three years, suggests that in real terms infrastructure will decline 2.5% a year between now and 2003. The fall in investment has generated considerable concern in government. Although no policies have been finalised or even proposed publicly, discussions at the ANC's National General Council indicated three general strategies could emerge:

- ▶ A campaign to raise savings. It is unlikely that such a strategy could achieve much, given high income inequalities and the associated mass poverty. The main obstacle to company savings is the lack of attractive investment opportunities, not unrestrained consumption.
- ▶ Measures to direct investment by pension funds, insurance companies and other financial institutions. It is not clear how much compulsion government is prepared to exercise, and what requirements it might impose. In the past, prescribed assets required companies to invest in government bonds, reducing interest costs for the state. New measures seem more likely to impose specific types of investment, for instance in small enterprise or infrastructure development. They might include community reinvestment requirements that specify that the banks must extend credit for low-income housing and infrastructure in black communities, and fund small producers.
- ▶ Attempts to restructure the budget to increase government investment and leverage private funding of infrastructure. Given the refusal to increase spending significantly, higher state investment would require deep cuts in personnel spending, which in turn could succeed only through a virtual freeze on real wages or downsizing in the social services. The push to raise investment in infrastructure through "public-private partnerships" seems unlikely to yield substantial results.

Foreign trade

Foreign trade picked up rapidly after 1994, with export earnings growing twice as fast as in the previous four years. Export volume grew 40%

between 1994 and 2000, and merchandise exports - that is, excluding gold - grew 60%. Imports grew 47%, but their value still lagged behind exports. Exports climbed to 22% of the GDP, from a low of 18% in the late 1980s. The structure of exports reflects rapid growth in manufactured exports - especially in the auto industry - and a decline in the volume of gold exports. Gold fell from 38% of exports in 1992 to 16% in 2000. Manufactures have always made up the bulk of imports, but there was particularly rapid growth in imports of televisions, radios and similar equipment. The increase in competition appears to lie behind the decline in employment in equipment and clothing manufacturing. Weak enforcement of customs has further reduced protection for South African producers. The Department of Trade and Industry (DTI) argues that the export push can only succeed if South Africa cuts tariffs for its trading partners, both to obtain access to their markets and to compel industry to become more competitive. It signed a free-trade agreement with the European Union in 1999 and one with SADC in 2000.

Fiscal policy

The adoption of the GEAR in 1996 brought a decisive shift in fiscal policy. It reversed the increase in government spending that took place after 1994. As Table 9 shows, in real terms total government spending fell 1.3% a year between 1994 and 1999. The declines were largest for infrastructure, while the main social services - health, education, welfare, police and corrections - essentially remained unchanged. Since the population grew about 7% in this period, spending per person dropped rapidly.

Table 9. Real growth in budgets, 1996/7 to 1999/2000

	1999/2000 billions of rand	% of total expenditure	Real change, 1997/8
Education	47,800	20%	-9.0%
Health	29,900	12%	-3.4%
Welfare	19,700	8%	-2.0%
Police	14,800	6%	0.8%
Total budget	243,400	100%	3.8%
Budget less defence	213,500	88%	-3.2%
Population growth			7.1%

Source: Calculated from, Department of Finance, *Budget Review 2000*, real growth calculated using CPI.

The 1999/2000 budget brought a slight increase in spending, but the

gains went mostly to buy arms. The MTEF indicates that this pattern will continue for the next three years, with, in real terms,

- ▶ Virtually no increase in the main social services,
- ▶ A real decline for infrastructure, and
- ▶ A 10% annual increase in military spending.

This pattern of expenditure contrasts strongly with government's repeated claims that it has reprioritised spending toward the main social services. A major cost for government remains its contribution to the Government Employees' Pension Fund (GEPF) of R10 billion a year, or about 16.5% of salaries. This represents a very inefficient way of paying for public servants' retirement funds. The funding level of the GEPF climbed very rapidly after 1994, from around 60% to over 95% by 1998. Currently, the GEPF holds R150 billion in government bonds, accounting for about a third of the national debt. Reducing the employer contribution or the funding level of the GEPF would substantially increase the funds available for other purposes, but would not affect workers' pensions.

Monetary policy

Inflation has fallen rapidly since 1990, with a particularly sharp downturn from 1996. CPI now stands at around 5.5%, compared to 15% around 1990, and 10% in 1995. The fall in inflation reflects both tight monetary policy, resulting in high interest rates, and the world-wide decline in inflation through the 1990s. In this context, South Africa continued to have extraordinarily high real interest rates. Since 1997, at least, interest rates have been 10% above CPI, compared to international norms of 2 to 3% over inflation. These high rates result from the combination of conservative monetary policies with a highly concentrated financial sector. In part, government supported high real interest rates to attract portfolio investment from abroad. In this argument, to attract foreign investors, South Africa needs a higher rate of return than other countries. In addition, high interest rates are supposed to reduce inflation by cutting demand, since they make it more expensive to borrow money for investment or to buy goods on time. In 2000, the government introduced a policy of targeting inflation rates. It has set a rate of between 3% and 6% for 2003 for CPIX, which is the normal inflation rate (CPI) taking out the cost of interest. The CPIX currently stands at over 8%, so achieving this target will require a substantial fall in inflation.

The danger is that, in order to achieve its target, government will insist on raising interest rates again. That would dim prospects of increased growth in the next few years.

Success relative to the GEAR targets

1997 projected economic targets and outcomes for three years. The following table compares the targets and outcomes with actual results over the period. It suggests that government policy was even more rigorous than GEAR required in cutting deficits and tariffs. On the outcome side, growth was substantially lower than predicted, interest rates were higher and the increase in private investment much lower. Where GEAR predicted substantial increases in formal employment, on average over 100 000 jobs have disappeared every year since it was adopted.

THE IMPACT OF LOCAL ECONOMIC DEVELOPMENT (LED) ON LARGE-SCALE JOB LOSSES

By Ray Ngcobo

BACKGROUND

Since the collapse of the Apartheid State in 1994, there have been many ideas put forward by development writers about what to do about the stagnant nature of our economic growth and its consequent slow employment creation rate. Despite the projected 3% growth rate, which was expected to generate some jobs and improve living standards of the majority of the people, a number of companies are laying-off workers and more jobs have been lost. The job losses have been blamed on the total closure of factories often associated with companies relocating, downsizing; right sizing, rationalisations etc. This has been a cause of concern for the government's Gear strategy, which was hailed by business as a mechanism for growth.

Small towns are the hardest hit by such industrial migration. David Kemble (in Drudy 1976) defines this phenomena as "a complete transfer of productive capacity to, or establishment of a factory in, a new location by the existing manufacturing firm"(p.24).

Neo liberal scholars have attributed industrial migration to "globalisation" and its subsequent consequences. It has been said that globalisation has opened up the world market for new players and local economic role players are beginning to realise new international opportunities. This has led to local capital flight to new localities where conditions can allow them to compete in the global market.

At a socio-economic level, industrial migration and capital flight have had a greater impact, which has been quite objective and qualitative, rather than statistical in nature. A new phenomenon has emerged, which for the purpose of this paper shall be referred to as joblessness. This phenomenon has nothing to do with being "without work" and being able to afford a quality life. Joblessness refers to a total breakdown of ones quality of life and the social fabric often associated with work. It is alienation of a special type and its symptoms are catastrophic to the existence of the state in the 21st century.

Joblessness in small town

Joblessness is rife in small towns, most of which are experiencing industrial migration and capital flight. Whilst symptoms of joblessness in big towns such as Durban, Johannesburg and Cape Town are markedly different from those of small towns such as Mooi river in KwaZulu-Natal, Butterworth in the Eastern Cape and a number of small towns in other parts of the country, the despair felt by the poor and the jobless is very similar.

In reviewing the international literature on small towns, the overwhelming impression is that it is certainly very new in terms of theory building or concept formation in most writings since the 1980s.

Communities and individuals are increasingly becoming powerless over their own economic destinies, as companies and firms close right and left due to capital flight. It is a known fact that the majority of communities in those small towns find their identity in their work. Work and income defines the class structure in them, thereby creating community consciousness.

Small towns are currently the focus of social research. As such, all social catastrophes often associated with economic decay, which are vigorously reported in big towns, do not get reported. Small towns and their poverty are an "industry" for a number of development consultants as plan after plan is developed and shelved without being implemented. The poverty industry is rife in small towns.

Large-scale retrenchments and job losses happening in such towns have added another dimension to the economic decay. Social evils, quite often associated with joblessness, are increasingly becoming more severe and are a threat to South Africa's fragile democracy and nation building. As Burke (1998) explicitly states "in the era of post-nationalism citizenship has become valueless".

Lack of delivery and large-scale job losses because of capital flight in small towns is developing into what I shall refer to for the purpose of this paper, as a "crisis of citizenship". Since work and citizenship are two sides of the same coin, values of civic consciousness and civic virtue are under siege. Citizenship no longer provides an attractive and powerful base for constructing "democratic pluralism" that enshrines the social values and moral ideas of the contemporary South Africa.

Employment in any community is a stake in the socio-political system. Thus job losses and economic decay are a "collective trauma" in small communities.

This is likely to generate, or even perpetuate, disobedience and a culture of non-participation, which should be things of the past. Regardless of whether local job losses are associated with "downsizing, right-sizing, relocation or retrenchment" they are a disaster for the locality where it occurs. COSATU has referred to it as a "death sentence" for communities everywhere.

Local responses to social trauma

There is a Zulu saying, which can be translated to mean, "poverty breeds innovations". If such a saying were to hold any truth, it is within communities that have suffered the social catastrophes associated with joblessness.

Despite extreme trauma as a result of joblessness, local initiatives have emerged as an alternative attempt to provide employment and regenerate the economies of the affected towns. With the support of the government and from private sector, a number of communities in crisis have embraced local economic development (LED).

Conceptual Framework

LED, just like the RDP, has been interpreted widely. It has meant many things to many people. At a local level, LED has often been confused with the RDP. The RDP lost credibility in some communities because it was heavily government driven.

One of the approaches to LED defines it as endogenous economic development, where communities are active shapers of their own economic destinies. Local actions could serve to regenerate the economy of an area. Nel (1994) defines it as being "... based in the host community and sought to improve local conditions and encourage that area's entrepreneurs".

Davis (1997) points out that this approach developed from the specific historical context during which there was increased recognition of localities as economic units. Some of the associated economic concerns are to create jobs, locate jobs in localities where they are needed the most, enhance the local tax base and allow money to circulate within an area.

As Harrison (1996) points out, LED initiatives are not new. For many decades, city governments around the world have tried to attract business activities from outside to locate in their city - the so called traditional approach to LED. More recently, however, a range of new LED strategies has emerged. Instead of relying on attracting business from outside, the new strategies emphasise indigenous economic growth from within the city. Both approaches - attracting industry from outside and building the economy from within - are important.

Towns and cities are exploring both strategies. For smaller towns that may have fewer benefits to offer large industries, most attention might have to be placed on indigenous growth. For larger cities, attraction of industry may be more important. These strategies require local stakeholders - local government and business communities - to adopt somewhat different approaches and roles to those that have been followed in the past. In particular, they raise major considerations and opportunities for South Africa's new local governments.

LED in historical perspective

Traditional LED initiatives go back over a century. Initially, in Britain and the United States, local authorities actively promoted development through "local boosterism" approaches. Emphasis was on using the town as a magnet to attract industry from outside (Harrison 1996). Policies in this "traditional" approach included:

- ▶ Marketing the town or city through publicity brochures and newspaper advertising.
- ▶ Providing incentives to outside investors - notably preferential rating on public utility services, mainly electricity.
- ▶ Offering direct incentives to outside investors in the form of land, buildings and finance on favourable terms.
- ▶ Actively recruiting specific industries and companies to locate in a city - also known as "smokestack chasing".

The first era of LED approaches in Britain and the United States lost momentum after the 1940s, as national and regional policies attempted to control the distribution of industry from the centre. Local policies were thus

consigned to a secondary role until well into the 1970s, when the importance of the local level began to be reconsidered.

During the 1980s and 1990s, a shift began to take place in approaches to local economic growth. From the 1970s, local economies became increasingly likened to global economic change - a process known as "internationalisation" or "globalisation". Industries and capital became more internationally mobile, being able to choose countries and cities that they considered the best locations across the world. Some local industries chose to relocate from a specific city when more favourable conditions prevailed in another city or country. Hence many formerly strong local and regional economic entities - such as cities and regions that were traditionally based around certain industries - eroded due to changes taking place outside their immediate borders.

In this context, cities and towns had to become more active protagonists in their economic future. Cities had to play more entrepreneurial roles in securing their existing economic base and in promoting future development. Whereas traditional boosterism and industrial recruitment approaches have remained important - and are still followed in many cities - a range of new complementary LED strategies have emerged. They place greater emphasis on each city utilising its unique benefits and strengths and on promoting indigenous development from within the city itself.

In broad terms, two new strategies have emerged in cities and towns:

- ▶ Place marketing - where local players seek to sell a unique and often new image of a city to attract investment. Such re-imaging of cities goes beyond traditional advertising. Some examples include Birmingham's image as Europe's conference capital or Glasgow as a city of culture.
- ▶ Fostering indigenous economic activities and regeneration initiatives - these strategies (including development offices, enterprise boards, information units, public-private partnerships form the core of the new approaches to LED.

Attracting investment from outside remains an important source of economic growth and development for local cities. Place marketing (a more sophisticated approach to industrial recruitment and boosterism to suit the changed global environment) is therefore of key importance in attracting

investment to cities. Alongside this, however, is the growing realisation that exogenous development will in most cases be insufficient to meet the needs of local cities. It is especially true of smaller cities and towns, which have fewer benefits with which to attract business. In such cities and towns in particular, strategies must be adopted to develop and utilise the unique nature of each city and to facilitate indigenous local development.

The new approaches to LED have had major implications for the roles of major players in cities. Overall, emphasis has swung toward a "new local entrepreneurialism" with local city government, business and communities playing innovative and active roles in securing growth and development. Cities have had to develop a coherent local strategy to sustain, retain and expand local economic activity. Local authorities have had to recognise that, in the face of global economic changes, simply continuing the traditional activities of local government is not sufficient. Instead they must engage in new styles of operating, which emphasise entrepreneurialism, facilitation and local process. Business has had to adopt a more active role in securing the economic future of their city partly by addressing local conditions outside their immediate business concerns. Finally, new strategies must build on the capacity in local communities to be effective and sustainable.

LED in Post-Apartheid South Africa

The constitution of the Republic of South Africa imposes a responsibility on local government to enhance the development of local economies. This has also been echoed in a series of policy papers developed by the department of provincial and local government, including a series of legislation, enacted by parliament.

In KwaZulu-Natal, partnerships between the provincial department of economic development and tourism and the KwaZulu-Natal Economic Council are in the driving seat of the LED bandwagon. A new strategy has been developed to cluster a number of municipalities who are experiencing economic hardships through large scale job losses due to capital flight, industrial mobility or losses quite often associated with company rationalisation strategies.

Such a strategy marks a shift from traditional economic planning methodologies of the past, which focused on providing incentives for companies to locate in what used to be called "homelands". The removal of incentive schemes and subsidies to companies has meant that such localities have had to change their economic planning strategies to cater for new conditions.

This paper hopes to evaluate some of the LED programmes tried out and their impact on creating jobs for the poor. In evaluating such an impact, one may have to bear in mind Kennel Lands' (1974) precondition for measuring progress. Describing what he termed "problem of calibration or reference point", he states that "we cannot measure something properly unless we can first describe it".

To develop an effective system to evaluate the impact of LED, we must first have a working plan (mind map) of a good LED in our head, as well as compass indicators on performance and the different roles played by different stakeholders in it. To design an instrument to measure the performance of such strategies, one is faced with the necessity of spelling out a more or less explicit model of an ideal LED strategy.

In the literature on LED, one particular model is emerging and has been tried by the KwaZulu-Natal Economic Council as well as the department of economic development and tourism in the province of KwaZulu-Natal. Edward Blakely (1989) has also advocated such a model in his work on LED and it has been widely supported by the national department of provincial and local government in the implementation of the LED strategy.

The emerging model for LED implementation in South Africa

All writers on LED agree that it is a process not an event (Bennett 1991, Bovaird 1992, Nel 1994 and 1998).

All the researchers agree on the two main preconditions to be observed in LED process. First and foremost, the process should be initiated by an organisation or a group of institutions responsible for implementation or at least co-ordinating such implementation. Secondly, they agree that LED should be initiated by a partnership between labour, business and government. Harrison (1996), as well as Nel (1999) supports Blakely on the need for multi stakeholder participation in the implementation of LED. Partnership, according to Bennet 1991, is a concept used to argue that "not only the factors of production, but the actors involved in managing each factor, have to be brought together into a mechanism to ensure successful and sustained LED".

Blakely (ibid) further emphasises the need for an early agreement on the economic development area of concern or economic development zone. Such an agreement should be reached, irrespective of any political consid-

erations and boundaries. LED has neighbourhood or city boundaries. It must be a regional enterprise, involving all communities sharing a common economic zone. Labour market conditions, common economic problems or a common resource base should be the determining factor.

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A COMMITMENT TO DEVELOPMENTAL LOCAL GOVERNMENT

By Sandra van Niekerk - Provincial Education Officer, SAMWU

After 1994, local government in South Africa was confronted by a serious challenge - how to deal with the legacy of apartheid, the extreme levels of poverty and the widening gap between the rich and the poor.

Some of the challenges facing municipalities included:

- ▶ Overcoming an economic, residential, social and political system racially divided by the policies of separate development and enforced by legislation such as the Group Areas Act and influx control. Economic resources, infrastructural developments and adequate services were heavily, or exclusively, concentrated in the traditionally white areas.
- ▶ Integrating the old black local authorities and old white local authorities into a coherent whole. The different local authorities came to this process with very different backgrounds, access to resources, administrative systems, capacity and skills levels. In many cases old black local authorities simply did not have the capacity to manage their own affairs since they had been given very limited powers in the past to do so, and thus had no experience to draw on.
- ▶ Skewed settlement patterns which imposed enormous costs on working class families - workers spent hours of each day commuting to and from work, at great financial cost.

All these challenges had, and have, major financial implications for local government. Government conducted several studies to cost the extent of the backlog and the resources needed to wipe it out.

- ▶ In 1994, the National Infrastructure Investment Framework (NIIF) estimated that South Africa's overall economic infrastructure needs cost about R170 billion.
- ▶ In 1996 the Municipal Infrastructure Investment Framework analysed basic services to urban households. It modelled three different capital investment scenarios with progressively higher levels of service and lower level of subsidisation. The results for the middle scenario estimated capital requirements (including asset replacement and

rehabilitation) at R6.8 billion a year over ten years.

- ▶ In 1998, the Infrastructure Investment Review team estimated cost of the economic and social infrastructure backlogs to be between R47 billion and R53 billion, with an average annual backlog of R10.6 billion

In this context of vast social, economic and political inequalities, high levels of poverty, increasing unemployment, skewed access to resources, and fragmented communities, the new South African constitution, passed in 1996, envisaged a developmental role for local government as a way of approaching these challenges. The Reconstruction and Development Programme (RDP) had already given some content to what "developmental local government" would be made up of.

But it was the Local Government White Paper, released in March 1998, which set out in more detail central government's vision of developmental local government. Fundamentally, the White Paper saw it as "local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives."

Developmental local government had to play a role in-

- ▶ representing communities
- ▶ protecting human rights
- ▶ meeting basic needs.

The White Paper went on further to identify four inter-related characteristics for developmental local government. It had to:

- ▶ maximise social development and economic growth
- ▶ play an integrating and co-ordinating role
- ▶ democratise development
- ▶ play a key role in leading and learning.

In its response to the Local Government Green Paper, SAMWU supported the concept of developmental local government - seeing it as a necessary counter to an over-emphasis on regulation. COSATU, too, in various documents and statements, has supported the concept of developmental local government as part of a broader argument for a strong, interventionist, and active state in order to overcome poverty.

There are clear grounds for arguing that local government must play a key role in any strategy to alleviate poverty, improve living conditions, and

deepen democracy. In other words, local government had to have a central role in any development strategy.

There are many ways in which the importance of local government in development can be seen:

- ▶ Municipalities perform a pivotal service delivery role, both in respect of services that local governments have to perform in terms of the Constitution, as well as in the delegated responsibilities from national and provincial governments. In addition, national and provincial governments provide services within local government. The kinds of services, level of service and quantity of service provided can impact significantly on poverty reduction, the extent of inequalities, and on the standard of living of all communities.
- ▶ Local governments play both direct and indirect roles in employment creation. In 1997, municipalities employed more than 200 000 workers in terms of Statistics South Africa figures. Municipalities also support employment indirectly by providing basic services to communities and industry.
- ▶ Local government is the sphere of government closest to the people and can serve as a laboratory for participatory democracy. Participatory democracy is a cornerstone of South Africa's democracy and requires that people participate in decision-making. It is easier to involve people in decision-making in local issues than in provincial and national forums. However, this is contingent upon the council actively promoting participation.
- ▶ Municipalities control substantial resources for development - although not enough to meet the demands they face - demands which have, over the last few years, increased substantially. The aggregate size of the municipal budget in South Africa in the 1998/99 fiscal year came to about R27.4 billion. This figure equals roughly 4% of South Africa's total Gross Domestic Product, and about 13% of the national budget. However, municipal budgets vary enormously, from metropolitan areas with budgets of several billions of rands, to rural councils with negligible revenues.

In summary then, local governments have a critical role to play in social and economic development.

While it might seem that there is a common understanding of the need for developmental local government and what it entails, and a commitment to developmental local government, there is, in fact, a great deal of contestation on the interpretation of what exactly is meant by it.

Role of state

There is a general trend, and pressure, internationally for the state to play a minimalist, managerialist role. This means:

- ▶ removing itself from direct service delivery/provision of services
- ▶ cutting the size of the state/public sector
- ▶ cutting the state budget which means cutting spending in the public sector and on welfare areas.

This approach to the state is a key component of neo-liberalism which sees the state as fundamentally inefficient when it comes to service delivery, and state spending as a disincentive to private sector investment. The implications of the neo-liberal approach for local government is captured in a recent World Bank report. This argues that current developments should be about "creating a level playing field for competition among cities, particularly across national borders; on understanding how cities get ahead in this competition; on global capital transfers, the economic order and the weakening of the nation-state. The city is not a community, but a conglomerate of firms, institutions, organisations and individuals with contractual agreements among them."

In other words, the vision of local government is a municipality where:

- ▶ local government is redefined into a "core" administrative municipality which focuses on strategy and policy making, and which regulates service delivery rather than providing services directly;
- ▶ local government enters into a series of contracts, partnerships and network arrangements with a range of service providers - both internal and external to the municipality. In this way, service delivery happens at arms length from the municipality;
- ▶ municipalities must strive to be "internationally competitive", or a "world class city."

South African government understanding of developmental local government

In South Africa, the government, in line with international trends, tends to reduce developmental local government to municipalities playing an enabling, regulatory role. They play little or no direct role in service delivery or the economy. It is argued that the direct delivery of services by municipalities is not part of their "core" business.

Together with this understanding of developmental local government goes a particular understanding of local economic development. This is often reduced to creating an environment for small business to develop in, and for capitalists in general to operate with few restrictions. The motivation for this is that the trickle down benefits of profit making will eventually benefit all. In this way, it is argued, the goals of developmental local government will be achieved, but through the mechanism of the free market rather than through the mechanism of state intervention. This is preferable, it is argued, to the state spending money on infrastructural development and service delivery since state spending will have the effect of crowding out private investment.

This conception of developmental local government has particular implications for what services are delivered at a municipal level, and how they are delivered. The emphasis is very much on delivering those services that users can afford to pay for, rather than those services that users need. Service delivery is commercialised through:

- ▶ turning citizens into consumers who have a commercial/business relationship with the service provider;
- ▶ turning basic needs into supermarket goods which are bought and sold. How much you get of a service depends on how much money you have, not on how much you need it,
- ▶ expecting users to pay the full costs of services, with only very limited cross- subsidisation or other forms of subsidisation,
- ▶ perpetuating the neo-liberal ideology that people will only value what they must pay for;
- ▶ municipalities only continuing to provide those services which are financially sustainable.

In addition, the emphasis is on service delivery through partnerships with external providers - and partnerships with private companies are encouraged.

SAMWU's understanding of developmental local government

For SAMWU, the emphasis of developmental local government must be on meeting basic needs (as opposed to the mere provision of basic services). Very importantly, this must be done in a way that does not reduce meeting basic needs to what is possible with the available resources municipalities have. Providing municipal services cannot be reduced to simple financial considerations to balancing the budget sheet. Other considerations also

need to be taken into account - namely, the social, economic, health and environmental benefits of providing a level of service higher than the bare minimum. These benefits include-

- ▶ a general improvement in health in poor communities;
- ▶ environmental improvements,
- ▶ reducing social and economic inequalities (as the differences in levels of services between communities decreases),
- ▶ the encouragement of subsistence farming and the development of SMMEs;
- ▶ improved access to education;
- ▶ improving the living conditions of communities and so helping to alleviate poverty.

Apart from these benefits, it must be noted that if only a basic level of service (such as standpipes for water) is provided, then the cost of upgrading that service is enormous. If services can only be upgraded on the basis that residents will pay for the upgrading, then this process will become impossible for poor communities and they will be caught in a never-ending cycle of poverty.

In order to be able to meet its developmental obligations, local government must, in fact, play an active role, located within an active, interventionist state at a national level and within a national service delivery framework. The developmental role of local government must be about alleviating poverty; reducing inequalities in communities- providing a reasonable standard and quantity of service that will have positive health, environmental, social and economic spin-offs in the community; and creating and providing jobs, through such things as public works programmes, that are able to support workers in a reasonable standard of living.

It is not possible, for the private sector provision of municipal services to meet these social, economic, health and other imperatives since the profit motive of the private sector is fundamentally at odds with the meeting of these imperatives. This is aptly summed up in the following quote-

"The private sector has entered into partnership with government on a mission to marginalise those who cannot pay and reward those who have the capacity to buy services at high rates. The private sector is not assisting municipalities to realise its goals of social development." ("Local Government Transformation"- Major Kobese and Siyabonga Nodu; Rights Now; June 2000, issue 7)

A national service delivery framework needs to address:

- ▶ the need to extend services to areas which were historically neglected
- ▶ the need to retain services within the public domain
- ▶ the public's universal right to municipal services which should not be determined or undermined by the ability to pay
- ▶ human resource development to capacitate public servants to deliver services in an efficient and friendly way
- ▶ a financial framework with a strong redistributive element
- ▶ the promotion of community participation in areas like the budgetary process.

It must be noted that the developmental role of local government is premised on the understanding that local government needs to get a bigger share of the national fiscus.

Developmental local government and the other spheres of government

To fill its developmental role, what does local government need? It needs:

- ▶ central government funding;
- ▶ capacity building from central government and provincial government to assist local government to carry out its duties and responsibilities;
- ▶ the spirit and intention of the Water Services Act and the National Framework Agreement to be fulfilled. According to the NFA, signed in 1998 between SALGA and SAMWU/COSATU, with the department of constitutional affairs as a witness, public sector delivery of municipal services is the preferred option. And in terms of the Water Services Act, a municipality must consider all known public sector providers who could deliver water before considering bringing in a private company to provide water services.

It's clear what local government needs from central and provincial government to fulfil its developmental role. What is the reality?

The reality is that policies like GEAR undermine the ability of local government to play its developmental role. A developmental local government means an active and interventionist role for the state. GEAR,

however, is premised on the state playing a regulatory and an enabling role. With its emphasis on reducing the budget deficit, cutting back on state spending and reducing the size of the public sector, the amount of money available to local government from the national fiscus is minimised. Since 1994, the equitable share going to local government has declined by approximately 85% - this at a time when unemployment is growing and the effects of poverty are increasingly stark.

The assistance and support that local government needs from the other two spheres of government is, then, largely not forthcoming.

Developmental local government and democracy:

Part of the developmental role of local government identified by the White Paper is to build participatory democracy, and encourage community participation. Since local government is the most direct interface between the government and the community,

It should be the best location for the development of a grassroots, participatory, deep-rooted democracy.

Local government has inherited closed and undemocratic decision-making systems. There are few, if any, forums for consultation with poor communities. When they existed, systems for consultation favoured ratepayer associations and other groups that represented the well off.

The system identified in the Municipal Systems Bill for public participation does not seem, on the face of it, adequate for deepening and extending democracy. Provision is made for ward committees. But the council makes the rules about how members of the ward committees will be appointed, how frequently the ward committees will meet and so on. The ward committees are simply seen as advisory bodies, which can make recommendations, but with no decision-making powers or veto powers.

This is in contrast to systems of participatory democracy which have been attempted and developed in other parts of the world. For instance, in Kerala, India, a massive system of public participation has been put in place, involving three million people. Responsibility for a huge amount of public money has been devolved down to local meetings, which draw up plans for how to use the money.

The key democratic principles central to the process are:

- ▶ maximum direct participation of people,
- ▶ accountability with continuous social auditing of performance;
- ▶ an emphasis on transparency with the right to information and openness of all documents.

There is a lot we could learn from such experiences.

Developmental local government and workers

For workers, developmental local government should mean:

- ▶ the opportunity to be involved, as front-line workers in identifying wastages, prioritising needs, and transforming service delivery in local government to meet developmental needs.
- ▶ the opportunity for more meaningful work and better working conditions.

The reality is, however, something different, and likely to get more so for workers. The government's vision of developmental government which is being effected at the moment through the process of restructuring holds the danger of retrenchments, work intensification, and the undermining of hard-won benefits and working conditions.

Conclusion

In many ways the concept of "developmental local government" has been turned into a dirty word. Instead of an approach to local government which could see basic social and economic needs being met, poverty being alleviated, and inequalities reduced, it has been turned into an approach to local government which emphasises competition and the profit motive as the only way to develop the economy.

This approach to developmental local government, together with the present process of restructuring municipalities that is taking place, is likely to lead to a greater and greater distance opening up between communities and the councillors they elect, and is likely to mean that the needs of the poor are met, if they are met at all, in only a minimal and inadequate way.

ON BECOMING A RAINBOW UNIVERSITY

Prof. Magda Fourie

South Africa has effectively had two systems of higher education: one for historically disadvantaged or Black institutions, and one for historically advantaged or White institutions. Major differences between these two types of institutions existed at all levels and in all spheres - dissimilar national and institutional governance structures and processes were put in place, different subsidy formulae were used, staff and student populations were worlds apart, and teaching and research capacity were unequal. The new higher education policy and legislation strongly emphasise the need to create "a single national co-ordinated system, in order to overcome the fragmentation, inequality and inefficiency which are the legacy of the past, and successfully address the present and future challenges of reconstruction and development"¹.

In my opinion, this has not happened. What has mostly been happening has been that institutions remained the same and expected their customers (the students) to adapt to the status quo. The numbers of new customers (non-traditional students) at particularly the historically advantaged institutions have, however, now in many instances reached a critical mass, giving rise to profound changes in these institutions.

Still, the transformation process at most of our universities has been so slow and lethargic, that the gap between historically advantaged and historically disadvantaged institutions is as wide as ever. Furthermore, institutions are reeling under the onslaught of major, rapid changes in their internal and external environments. Some of the forces impacting on higher education institutions include demands for broadened participation and redress, shrinking financial resources leading to, amongst other things, staff rationalisation, the demands of the National Qualifications Framework (NQF) requiring programme planning and development, as well as quality management systems, and others.

What is the effect of all these forces for change? In many institutions governance and management structures are in a crisis management mode because the volatile and uncertain conditions in which they must function.

These make strategic planning almost impossible; staff are overworked, demoralised and pessimistic; students are disillusioned and feel alienated from their own institutions. For South African universities to become the kinds of institutions so desperately needed by our young democracy, that is, tertiary institutions where students can grow and develop into productive, well-adjusted citizens and lifelong learners, where staff will once again be excited and passionate about their profession, and where management can lead the way towards the institution becoming a learning organisation, where real transformation needs to take place. Many of the problems that are experienced in the transformation process of universities, can be related to a number of myths on transformation that many role-players, in particular some staff members, have.

Myth 1

The first myth is that transformation of higher education is peculiar to South Africa, and that it is solely the result of the political changes that this country has seen. Although the major impact that the transition to democracy and the new government has had on higher education cannot be denied, it is an indisputable fact that transformation of higher education is a global phenomenon, taking place in most countries in the world.

"Although higher education is often seen as slow to change or downright resistant, it has undergone rapid transformation throughout the world in the last 25 years and may be in a period of unprecedented change. Today, in spite of differences in traditions and structures, higher education institutions world-wide share remarkably similar problems and are shaped by forces that transcend national boundaries" ².

This opinion is confirmed by other authors: *"There are many signs which indicate that the world is going through such major changes that we may be talking about a new epoch. Since knowledge plays the key role in the new society it is sometimes called the knowledge society. The emergence of the new society calls for a re-evaluation of the university system..." ³.*

Myth 2

The second myth is one held particularly strongly by some staff members who believe that if they wait long enough and do nothing, transformation will go away. In the present post-industrialist, post-modern society, however, change has to be accepted as a normal and integral part of the human existence. Change has been described as ubiquitous, persistent and non-

linear. It has become the chronic condition of life. The world is becoming increasingly complex and the unpredictable is becoming a normal part of the human experience.

Many authors differentiate between change and transformation. According to Raubenheimer *"change is a physical, relatively simple, operational process that, although a product of the human mind, occurs outside the individual. Transformation, on the other hand is a relatively complex, time consuming, psychological process which involves the adjustment of perceptions, attitudes, values and norms"*⁴.

It is for this reason that transformation requires a mind shift from the people involved in the process. Neither management nor staff nor students can keep on thinking in the same old ways and having the same old preconceptions and attitudes. Gourley believes that transformation conveys a *"sense of radical change, of a metamorphosis which needs to take place"*⁵, and it implies much more than cosmetic changes, window-dressing or strategic moves; Kirsten says: *"It is a moral imperative, deeply rooted in, and driven by the will-to-truth"*⁶.

Myth 3

Particularly at the historically White universities, considerable changes in student populations have occurred over the past nine to ten years. At the University of the Orange Free State for example, the numbers of White students decreased by 17% during the period between 1990 and 1995, whereas Black student numbers grew by 219%. In 1999, 46% of the student population was Black. This should be interpreted against the background of the fact that this institution only admitted its first undergraduate Black students in 1983. The same tendency is true for most other historically White institutions - at the Technikon Free State only 1.92% of the total number of students in 1987 were Blacks; in 1999 Black student numbers far exceeded those of Whites (64% Black students and 36% White students). At the Port Elizabeth Technikon White students formed 86% of the total student population in 1988; in 1999 this percentage has shrunk to 32%⁶.

Changes in the appointment of staff members have also been noticeable, though these have been much smaller and slower than the changes in the student population. Some institutions have adopted affirmative action policies for staff appointment and development, and the numbers of Black and female staff have been growing slowly but surely. Furthermore, the majority of South African higher education institutions have experienced changes in their governance and management structures, with the appoint-

ment of new Vice-chancellors, transformed Councils and Senates and the establishment of Broad Transformation Forums. All of these developments have given rise to the third myth: transformation simply means changing the "face" of the institution, i.e. a multiracial student and staff population, a new top management and some kind of transformation forum that will take care of transformation. However, transformation means much more than this - it penetrates every level and fibre of our higher education institutions. Transformation means new ways of thinking, about the institution, about our customers, about what we are doing and why we are doing it. It means new ways of seeing ourselves, one another, our relationships, our similarities and differences. It means new ways of doing, new ways of managing, of decision-making, of negotiating, of teaching and learning, and of researching.

Myth 4

The fourth myth is closely related to the belief that equity in South African higher education, entailing an increase in the numbers of Black students, will necessarily lead to lower quality. Thus transformation is equated with the declining quality of higher education.

But evidence from other countries prove differently. According to an American investigation *"it is incorrectly assumed that quality and access are competing, antagonistic values in higher education ...It is not true that access causes a decline in the quality of higher education ...Access without quality is a cruel deception while quality without access is a betrayal of the American ideal of equal opportunity, and the belief that it is important to education all children"*⁷.

South Africa cannot afford universities which are mediocre and steadily declining academically and fiscally, as they are currently portrayed in one media report after another. The danger is that a higher education system of mediocrity will create a society of mediocrity. For a developing country such as South Africa it is not only desirable, but also essential, to have world-class higher education institutions. Quality at all levels of the institution should be striven for, and the initiatives of some universities in this regard, as well as those of the Higher Education Quality Committee of the Council on Higher Education should be supported and commended.

Myth 5

The last myth pertains to the people and structures involved in transformation. Transformation has no prospect of succeeding if the majority of

stakeholders and role-players in the institution, particularly staff and students, do not feel themselves part of the process, and if they do not believe that they have a contribution to make. All roleplayers, irrespective of their differences, should take ownership of the transformation process and play a meaningful role. The diversity within South African higher education institutions should be regarded as one of the major advantages of the system, and should not be seen as a hindrance to transformation. Nor need institutional diversity prohibit universities from becoming world-class higher education institutions, which are at the same time responsive to national, regional and local needs.

Attempts have been made to dispel some myths which reign supreme in the perspectives of many people about South African higher education. The question remains: how do "old" South African universities become "rainbow universities", universities for the "new" South Africa, which will contribute to the reconstruction and development of this country?

Levels of transformation

The transformation of higher education in South Africa can be seen to be taking place at various levels⁸.

- ▶ The structural or governance level. This refers to the transformation of governance structures such as Councils and Senates and to the establishment of a Transformation Forum, and/or the appointment of a transformation officer. At most institutions considerable progress has been made at this level.
- ▶ The level of demographics. This refers to the need for institutions to reflect the demography of the nation in student enrolments and staff composition. For historically White institutions, this refers particularly to increased access for students from previously disadvantaged communities, as well as the appointment and development of staff from previously disadvantaged groups. As indicated above, major changes have been taking place in this respect, though much more needs to be done. Issues that come into play here are admissions criteria that, if based on matriculation results (as in many cases they still are), automatically prejudice prospective students who come from a deprived school system. Another issue is the availability of bursaries and loans for students from economically disadvantaged communities. Much more work also has to take place in the area of student

development to empower students to successfully cope with the challenges of higher education.

- ▶ The level of vision/mission and organisational culture. Organisational culture is made up of values, norms and behaviours. It is inevitable that the changes in staff and student complements will bring about changes to the organisational culture. At present, however, it seems as if many universities are still struggling to effect the shift from an organisational culture which was acceptable and appropriate for the "old" South Africa, to one that will be appropriate for the "rainbow nation". The existence of different groups in the organisation with different values, norms and behaviours, and different perspectives of the organisation, makes the forging of a new organisational culture even more problematic.

Shared values are considered to offer considerable benefits for the organisation. According to Hoy and Miskel "shared values define the basic character of the organisation and give the organisation a sense of identity. If members know what their organisation stands for, if they know what standards they should uphold, then they are more likely to make decisions that will support those standards. They are also more likely to feel part of the organisation"⁹.

Studies have also shown that the leader or manager of the organisation has a crucial role to play in initiating and maintaining the desired organisational culture. Vice-chancellors, with their management teams, therefore have to be explicit in their commitment to transformation and clearly explicate and communicate their vision for the institution at all institutional levels. People transform by being led (leadership), not by being told (dictatorship/paternalism).

The values of non-racism, non-sexism and democracy should be publicly adopted and espoused by governance and management structures alike. Furthermore, organisational culture and structure should be shaped towards student development. Changing the organisation to accommodate the diversity of both staff and students could be accomplished by it becoming a learning organisation, in which the organisational culture is one which is capable of constant adaptation as the needs of the stakeholders change¹⁰.

- ▶ The transformation of the core function of an institution refers to

fundamental changes in the academic and research activities of the institution with a view to ensuring both quality and responsiveness to employer and national needs and goals. It is transformation at this level which impacts on social development nationally. For an institution to be able to make an impact on national development, it must be innovative in curriculum development and knowledge production, and design programmes that will contribute to the attainment of national goals and objectives.

The core function of any university revolves in the first place around students, their needs and development. For an institution to create an environment in which all students can succeed academically and become active lifelong learners, the following guidelines may be useful:

- ▶ Admissions tests should be devised which identify and admit students who have the inherent ability, or potential to succeed in higher education notwithstanding their school background and matriculation results.
- ▶ Viable bursary and/or loan schemes should be put in place to assist promising students who have financial problems.
- ▶ Foundation courses which focus on language and numerical proficiency, life-skills, study skills and information literacy should be introduced for all students to enable them to eventually become world-class graduates. Bridging programmes designed specifically for historically disadvantaged students in many cases marginalise them even further and have not always produced the anticipated results. It should be recognised that all students, whether Black or White, rich or poor, are in different ways disadvantaged, and foundation courses can address this.
- ▶ Programmes and curricula should be developed that do justice to all students and that enrich the academic experience of every student. The present traditional curriculum should be restructured and transformed to reflect the diverse perspectives of the total student population. Inclusive curricula should be developed that will include the perspectives and voices of those who have been traditionally excluded, i.e. curricula which affirm the diversity of our country and its people.

- ▶ Innovative delivery modes catering for different learning styles of students and which take into account the complexity of each student individually and in interaction within a group, should be introduced in our lecture rooms. We need to admit that students' diverse backgrounds will influence how they learn. Teaching methods must be varied and contextually relevant to meet the needs of all students. Teaching and learning in a diverse lecture room can be made more effective by, for example, broadening the pool of teaching examples so that they are pluralistic and diverse. The language difficulties of students receiving non-mother tongue instruction also require innovative and creative approaches.
- ▶ The progress of all students, and particularly at-risk students, should be continuously monitored. Student retention, development and progress should be seen as the joint responsibility of the university administration, guidance and counselling services (preferably located in every faculty), and academic staff - in other words, the entire academic community should unite to support the education and development of students. Academic support should not be done as an "add-on", but should form an integral part of the academic programme of the institution. Valuing all students and taking them and their learning seriously should be at the heart of the higher education enterprise.

Conclusion

Transformation of higher education is not an end in itself. The ultimate goal of this long and often painful process is to ensure that every higher education institution in South Africa contributes to the intellectual, social and emotional development of our most precious resource - the people of our country, and in this way contribute to South Africa's economic, social, technological and industrial development. What should happen in our campuses is that unity, not divisiveness, should be fostered. We should at the same time acknowledge and affirm the diversity which exists in our universities and celebrate our unity.

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THE HIGHER EDUCATION EXPERIENCES IN SUB- SAHARAN AFRICA:

LESSONS TO BE LEARNED

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The setting

Globalisation is calling for a learning society which will be the bedrock of knowledge based social and economic development. Higher education provides the cutting edge in this process of economic development and global competitiveness.

"Seek ye first the political kingdom, and all things shall be added unto you" was the clarion call by Dr Kwame Nkrumah of Ghana, then Gold Coast, when he was mobilising his people for Ghana's independence in 1957. Sub-Saharan Africa is today free from colonial and racist regimes, though not from their legacies. The people of Sub-Saharan Africa now expect, rightly so, "all things to be added" to them. They are aspiring to a high quality of life, jobs, adequate housing and nutrition. In short, they want a share of Africa's natural wealth and other resources. Education and training are regarded as the critical path to personal achievement and success. For this reason, post-colonial Africa gave education and training a high premium in their national development agenda and efforts. University education, in particular, was perceived as a safety route to escape poverty. It is against this background that the number of universities in Africa increased from six in 1960 to more than 200 today. This phenomenal growth has taken place just in the last 30 years or so. By any standard, this has been a commendable achievement. The World Bank has reported that graduate output in Africa has raised from 17 000 in 1970 to 83 000 in 1987.

In the process African universities have made a significant contribution to human capital formation in Africa. They have produced leaders in politics, the public sector and in business. However, some fundamental

questions remain regarding universities in Africa: Does an African university exist? What pressures have been brought to bear on universities in Africa? What are the challenges and opportunities for the future?

The experiences

The experiences of universities in sub-Saharan Africa is the reality of African experiences in other spheres of living. Since the early 1980's, Africa has been experiencing economic decline. This economic decline has led to foreign interventions with conditionalities and prescriptions. The structural adjustment programme (SAP) of the Bretton Woods Institutions is one such intervention, with disastrous results to education and training in general, and higher education in particular. The impact of economic stagnation and the associated external interventions have been sources of the crisis in higher education in Africa. South Africa may not have experienced this drastic economic decline, but this does not mean that South Africa universities did not experience the crisis in their own ways. This crisis is characterised by both internal and external dynamics.

External Dynamics

- social demand for higher education
- demographic pressures
- relevance
- autonomy
- funding
- external efficiency

The social demand for higher education has resulted in enrolment increasing faster than the capacity of institutions of higher learning to cope. The World Bank reported that the university student population on the continent grew by 61% between 1980 and 1990. During the same period, the enrolment rose from 337 000 to more than 542 700. Policies of access to higher education were determined by the imperatives of social equity and to a certain extent by manpower requirements.

The story of the development of higher education in post colonial Africa can, therefore, be characterised as a story of rising expectations and burgeoning enrolments. To illustrate the point, in Ghana enrolment quadrupled over a period of 20 years. In Kenya, enrolment grew from 535 in 1963 to 22840 in 1989. In Nigeria, the enrolment in higher education is said to

have increased by forty fold from 1963 to 1987. The story is the same everywhere in post colonial Africa. South Africa is not likely to escape this experience. The social demand for education has been compounded by a demographic explosion. In many African countries, population growth has been 3% or more annually. The population of students at primary and secondary levels has been increasing phenomenally. More and more secondary school leavers have been qualifying to enter universities. Governments and parents have, therefore, put pressure on the universities to open their doors to more students. Equity and fairness further dictated that access to higher education by all segments of society, irrespective of colour, race, social class, religion and gender was guaranteed. South Africa is equally guided by the same ethos. It is, therefore, difficult to see how the situation should be different here. The question whether there is such a thing as an African University is of relevance. Like many other modern things, contemporary African universities are imports from abroad. Some of them were established as part of the colonial edifice, others were founded as poor imitations of metropolis universities in Europe and North America. Their orientation remain essentially the same. Our universities remain intellectually and culturally dependent on the West for expert advice, language, textbooks and journals.

Dr Assie - Lumumba of Cornell University's African Studies and Research Centre noted that French religious values and social mores still influenced the structure of education in francophone Africa today. Universities in post colonial Africa continue to search for their identity as "truly African University". Perhaps universities in modern Africa should return to the roots and model themselves on ancient Alexandrian Library in Egypt which was the first university-like institution on Earth, established in 200 BC. As a centre of excellence. Autonomy is a highly cherished commodity by universities all over the world. African universities are no exception. Institutional autonomy is, however, not the same as indifference to public accountability. This issue was cogently put in its right perspective by former President Nelson Mandela in his address to the University of Witwatersrand on the occasion of the installation of Professor Bundy as Vice-chancellor.

He observed:

"To insist on the right to decide what shall be taught without acknowledging our society's grave developmental needs, would be a form of systemic autism rather than creative autonomy."

In much of sub-Saharan Africa, university/state relations exist in an uneasy or sometimes adversarial state. It is, however, hoped that in the Southern Africa sub-region good relations between governments and universities will continue to be maintained and to be developed. Funding of tertiary institutions is perhaps the most important issue which has influenced the operations and development of the tertiary sector in Africa over the last 30 years. Governments provide between 85% to 90% of university operating budgets. Universities in Sub-Saharan Africa are, therefore, dependent, upon governments for their existence. As the economies in the region stagnated, education budgets dropped as well. Robert Blair and Josephine Jordan writing for the World Bank in 1994 observed:

"As the education budget was shrinking, average allocations for higher education were also contracting from an average 19.1% of education budgets in 1980-84 to an average 17.6% in 1985-88. During the same period, real wages in the region fell by 30%."

This state of affairs has led to many good academics emigrating from Africa each year in search of better working conditions elsewhere. The World Bank estimated that 10 000 Nigerians are now employed in the United States alone. This is indeed a matter of concern and universities in the Southern African Sub-continent should be forewarned. The labour market or the external efficiency of universities in sub-Saharan Africa is a matter of concern. Unemployment of university graduates is becoming a growing concern in most African countries. Data available show that the levels of unemployment of tertiary institutions' graduates was 13.7% in Cote d' Ivoire in 1985 and 14.7% in Ghana. Graduate unemployment may be a result of irrelevant programmes offered by universities, or it may have something to do with the structure of the economy. Whatever the reasons, universities in Africa should examine their role as catalysts for change and development. In this way they will be able to respond to the economic demand for skills and expertise.

Internal dynamics

Universities are dynamic organisations. Besides the external influences imposed on them by their own milieu and environments, they are also susceptible to their own internal dynamics. To fully appreciate the crisis of universities in Sub-Saharan Africa it is important to examine some of the internal factors which have impacted greatly on their operations. These include staffing, leadership gender, quality assurance research capacity, and students' concerns about internal efficiency.

Weak management capacity in African universities linked with deteriorating working conditions are sources for staffing problems of these institutions. A study conducted by the World Bank revealed that staff in many African universities are dissatisfied with remuneration packages and deteriorating university facilities. The study also found that many staff members were engaged in a wide range of secondary income earnings. For example, one study in Nigeria revealed that academic staff spent 48% of their time on administration and only 29% of their time on teaching. This state of affairs was further compounded by high academic staff turnover. This has led to poor staffing in many African universities. Coupled with the staffing is the issue of leadership in higher education. The management of universities in Africa has attracted the attention of many who are calling for the revitalisation of universities in Africa. In a report prepared jointly by the Association of African Universities (AAU) and the World Bank, the process of renewal and revitalisation of African universities was emphasised.

"University leadership must be willing to invest the time and energy necessary to halt the negative trends in educational quality" the report stressed.

Strategic planning, capacity building and the management of information systems were key issues which required attention in the process of renewal and revitalisation. This process will hopefully enable universities in Africa to engage in "changing the present and making the future," as former President Mandela put it. Gender imbalances still loom large in many African universities. Participation of women, both as students and staff members, leaves a lot to be desired. Dr Nmah Tarpeh of the Association of African Universities observed that female students' participation in tertiary institutions has been relatively low over the years. From 1975 to 1985 female participation rose from 26% to 28%. From 1985 to 1991 the participation of female students was 31%. Though there has been steady growth, factors such as early marriages, teenage pregnancies and taboos that confine girls to certain roles, appear to mitigate against a 50-50% gender balance. I believe the issue of addressing gender balance in tertiary education is as urgent for South African universities as it is for universities elsewhere in Africa.

Quality assurance in higher education is a matter of great concern world-wide. In Africa, the situation is exacerbated by a number of factors. These include high staff turnover leading to the loss of skilled staff; frequent university closures linked to increasing student unrest and government intervention; and deteriorating physical facilities and library services. Over-enrolment and large class groups coupled with deteriorating working

conditions in universities are other contributing factors to the gradual erosion of quality in many of these institutions. If universities in Africa are going to be centres of excellence, there is an urgent need to address the quality assurance and maintenance.

Research capacity in many African universities has been undermined by a host of factors. These include the lack of national investment in research, non-existent Government allocation to research, and the loss of experienced staff members which leaves universities with young, inexperienced and insufficiently trained staff. There is also a lack of ready access to bodies of information within Africa, underdeveloped networks which should promote interaction with scholars elsewhere and an absence of a "community of scholars" within Africa. Lecturers face heavy teaching loads while there is a lack of professional journals in which to publish. Only a modest status is accorded to research in African societies. Here in South Africa, a survey conducted by the Foundation for Research Development (FRD) concluded that historically black universities and technikons have major problems with research facilities, including lack of computer equipment and library services. The survey further found that top managements of institutions were encouraging research without translating it into action. The survey further confirmed the perception that government policy on academic research did not encourage research that was relevant to the country's needs. Africa must address the issue of knowledge-creation since the whole world is moving towards a knowledge society and knowledge-based economy.

Student unrest and militancy has been a permanent feature of university life in Africa. This stems from what students perceive to be unsympathetic governments and lack of financial allocation to social welfare and weak institutional support of students. In many African universities a rather unfortunate culture of entitlement has developed among students. The challenge is, however, how governments and universities could cultivate constructive dialogue, which enhances understanding and mutual respect with all the major stakeholders in higher education. Here in your own country the Forum for Further and Accelerated Transformations (FFACT) seems to be a good start.

Internal efficiency reflects the efficient use of resources or lack thereof, be they human, physical or financial. Many universities in Africa are plagued by weak institutional management capacity. As a result, resource allocation is not as efficient as it should be. Over-staffed administrative

structures, lack of mechanisms for accountability, lack of professional discipline and commitment among staff members are some of the issues which hamper efficiency of resource allocation in tertiary institutions in Africa. Governance of higher education in Africa is, therefore, an issue of great concern. Value for money and doing more with less are the catch phrases nowadays in the management of resources. African universities would do well to respond to this call. Failure to do so will imperil the proper development of African universities as truly African institutions. Pooling together the external and internal factors affecting the life of universities in sub-Saharan Africa one is acutely aware of the fact that we have a long way to go before African universities come of age. They must, therefore, continue to search for their proper role and identity within the African environment. Dr Yesufu, in his book *Creating the African University: Emerging Issues of the 1970's* (1973), captured this challenge as follows:

"The African university must be one that draws its inspiration from its environment, not a transplanted tree, but growing from a seed that is planted and nurtured in the African soil... It must be more than an institution for teaching, research and dissemination of higher learning. It must be accountable to, and serve, the vast majority of the people who live in the rural areas. The African University must be committed to active participation in the social transformation, economic modernisation and training and upgrading of the total human resource of the nation, not just for a small elite."

This is a challenge universities in Africa must address in their own ways, within their social ethos and with the resources at their disposal. If the universities in South Africa would do this successfully the whole of Africa will be proud.

Youth Employment: A National Emergency

Penny Foley - Researcher, the Joint Enrichment Project

Fancy sits in the resource centre of the Joint Enrichment Project. She is busy typing up a workshop programme for a youth group she is involved in. They are looking at how they can become peer counsellors in their community. I ask about the programme and whether everyone is volunteering happily. She replies, "Ah, Penny. We have accepted. We are unemployed, we won't get work. It doesn't mean that we have to do nothing." Fancy is 24 years old.

Fancy's acceptance of her status as a permanently unemployed young person parallels South Africa's acceptance that young people won't work. There are a range of debates about what young people can do, but there is a worrying acceptance that, given the macro economic conditions, millions of young people will not get jobs, and that they will wait patiently while the nation ponders other options.

In February this year, I dedicated two days to trying to find out what the official youth unemployment figure is in 2000. After an endless relay of telephone transfers through the department of labour, Statistics South Africa, the Human Sciences Research Council, the National Youth Commission and various research agencies, I was none the wiser. If we do not know how many young people are not working how serious are we about changing the situation?

The Joint Enrichment Project (JEP) is a youth development organisation that has been working with young people since 1986. Much of our work focuses on looking at ways in which young people can begin to generate an income in a legal manner.

This article gives a brief overview of some of the issues which seem to be critical to understanding and reversing youth unemployment. The information comes from working with young people, and working with other institutions. It is an attempt to understand some of the nuances which are fundamental to providing alternatives to youth unemployment.

Why is work so important?

The dignity of work

What we do often defines how people see us, value us and relate to us. The activities undertaken by different members of communities have always been an important way of understanding social, power and economic relationships.

The transition from child to adult often reflects the fact that a person is now taking up responsibilities and activities which change their status in a community. An adult is expected to contribute to a family, and the inability to contribute can fundamentally undermine his or her status in that family.

The humiliation of not being able to contribute surfaces in many of the JEP workshops. One young man explained how he was not able to use soap to wash in his house, because "he brings nothing in." His mother had explicitly suggested he become involved in crime. Another young man explained that when he was bringing in money, he would come home and find a plate of food ready for him. His plate was at the top of the line of plates in the kitchen. When he lost his job, his plate moved to the end and the servings of food got smaller and meaner. One night, when he took the cover off his plate he found nothing but a piece of paper with the words "get a job".

Young women who are not working are expected to do the bulk of the cleaning, cooking and washing at home.

It is important to realise that young people who are not employed are not "idle". They are often extraordinarily busy "doing their business", but it is often very difficult to understand what this business is. It's meeting people, checking opportunities, engaging in elaborate exchanges of services and goods and it takes place at odd hours and defies all notions of regular, organised activity. And it is a noble and furious method of refusing to accept that there is "nothing for me to do".

The need for income

A survey of JEP participants, all of whom were unemployed, revealed a remarkable dependence on the pensions of an elderly relative. It is the one stable income in many of the households from which our participants come. This raises enormous questions about what happens when that income ends? Many young people have their own children, and the web of dependence on a fragile source of income becomes more complicated.

In most South African communities, people have to have money. It is not possible to live without it. Where it becomes difficult, or impossible, to get this money legally, then other methods will be employed. There are some very disturbing inconsistencies in South Africa's current passion for curbing crime, and a seeming disinterest in finding ways for young people to earn money.

Social support for young people

A youth culture has developed in many communities which is exceedingly alienated from adult society. Young people do their thing, and their interaction with adults is limited, and often quite negative.

Looking for work, starting a business, passing a training programme all require discipline, commitment and considerable support and affirmation. Often, a vicious cycle of depression, lack of money and domestic requirements prevent young people from sustaining the search for work. This interview with a young woman illustrates this.

"I came to Johannesburg when I was 15 and went to school until I finished standard 7. Then I fell pregnant at 16. I was ignorant and did not know anything about safe sex. After the baby, I stayed at home for a month, and then enrolled on a public works programme. The programme ran for six months. On the programme, I learnt to build and paint. Other than that, I do not have any other skills. I completed the programme in February of 1999 and have been looking for work for six months now. While I was on the programme I received a stipend and could pay for my sister to look after my baby, but when the programme ended I did not have any money and needed to look for work, so I sent my baby home for my mother to look after her.

My father does not work, he gambles, but my step mother does work, so she supports us even though she earns very little money..... Since there is no money, I cannot go out to look for work. Sometimes I walk to the community centre to use the phone to apply for jobs that are advertised, but I have only got "regrets" for now. We get up every day and clean the house. If there is food from the night before we eat it..... On the whole there is no stigma attached to being unemployed because most people in my community are unemployed.

I have thought about prostitution... so that I can support my child. Then I think of my child and of HIV and decide not to do it. I decide to hold on to my dignity."

Where do youth employment or income generation programmes intervene in this situation? How long do they run for? How do they start to provide a climate which encourages and supports young people's quest for work and income, rather than submit to a culture where unemployment is now "normal"?

Reflection on past initiatives with young people

There are a number of fashions which have swept through the youth development sector. These fashions include the belief that technical training and/or literacy and education will solve the problem of youth unemployment; a zeal for youth enterprise and small business training; and high expectations of youth service and voluntarism. None of these trends have impacted significantly on the national unemployment figures for young people, although in some communities they have been successful, and on a small scale they have often met with remarkable success.

Technical Training

New policies from the departments of education and labour make particular reference to the need to provide services to out of school and unemployed young people, particularly those who were disadvantaged by the past policies and systems.

Despite some valuable debates, and a few pilot programmes, it is still very unclear when and how out of school youth can access further training opportunities as a result of these policies.

It is very difficult for a person who has been outside formal education structures for several years to re-adapt to a training or education environment. Considerably more support than is currently planned, or budgeted for, needs to be provided, and new ways of enabling learning developed. While new policy addresses this to some extent, there is little recognition that many young people have consistently failed in formal education, and are terrified of continuing to do so. The provision of technical skills is not enough. A great deal more attention has to be given to how the young people can use this training creatively.

Many training programmes continue to focus on qualifications for the formal sector. Only a very few trial programmes have looked at how technical training needs to be adapted so that it enables trainees to engage with the vagaries of the informal sector.

Enterprise

There is very little information on enterprise or micro finance programmes for youth in South Africa, particularly urban youth. Most of the literature relates to programmes that have focussed on women living in rural areas.

There is a growing belief among practitioners that most young people cannot succeed in micro enterprise. They lack the skills, experience, confidence and capital required to succeed.

While this belief has some veracity, it must be noted that a very limited range of micro enterprise initiatives have been run over a long period of time, and there is very little documentation on their impact. It is clear that short courses which develop business plans or train young people to prepare cash flows are not sufficient, but there have been very few attempts to link enterprise training to other initiatives such as technical training, service or mentorship over a long period of time. There is almost no information which helps organisations determine which young people are likely to succeed in enterprise, and which young people will participate out of desperation. Programmes which assist the latter group to succeed in enterprise are thin on the ground.

Youth Service and Voluntarism

Youth service has had fluctuating support since 1993. A number of NGOs have run a variety of service or volunteer programmes with unemployed young people, and several tertiary institutions have been working in this area for years. Analytical and evaluative information from these programmes is largely unavailable, and there is an urgent need to begin accessing the enormous data. There is a rich reservoir of anecdotal information that shows that service and voluntarism can be very positive for young people, but again, it is largely unavailable.

The National Youth Commission has been developing policy on youth service for the past two years, but as yet it is still unclear when this will translate into programme opportunities, or how the programmes will deal with the lack of post service employment opportunities. Department of public works programmes could provide some valuable insights into what happens to young people after the programme, but there has been little evaluation of these programmes impact on young people are a specific target group.

Job Placement

The acceptance that "there is no work in the formal sector" has led to an abandonment of the idea of job placement support. While there is a proliferation of private sector commercial employment agencies, there are very few NGO or government programmes that provide ongoing advice and support to young people looking for work, or which advocate giving opportunities to young people to employers that do have positions. The department of labour's placement centres rarely do more than register the unemployed, and do not provide a pro-active service that lobbies for giving opportunities to young people who are first time job seekers.

The South African Graduates Development Association has recently begun focusing its energies on actively trying to place members in existing positions. This initiative recognises that new graduates need a "voice" in the formal economy, and that targeted interventions in the formal employment sector can result in higher placement levels. It is too early to measure the success of this initiative, but there is some evidence of initial success.

It is disturbing to note that despite all the evidence that many young people have no skills in looking for work, and easily give up the search, there are few programmes that actively assist them to access the opportunities that are there.

Conquest for Life, a youth programme in Westbury, Johannesburg, reports that often when young people step away from the gang culture, and make a decision to do something else, they quite often do find work. Part of this has to do with Conquest for Life's concentration on changing the expectations of their participants. For example, they are more likely to consider and accept part time and casual work. Decreased levels of entitlement make them willing to work for smaller salaries than they had initially demanded. The move into the adult world of work, even if it is part time, is often a crucial factor in reducing their vulnerability to being re-absorbed into the criminal violence of their communities.

Integrated Approach to Youth Development

The Joint Enrichment Project, along with several other youth organisations, argues strongly that interventions with young people have to be based on an integrated approach to youth development.

Very simply, this means that they must accept that young people have a range of social, economic, educational, psychological and spiritual needs and abilities, and structure their programmes to take account of these.

Secondly, youth interventions have to be made within the context of an entire community. Programmes alone are not going to solve the issue. This echoes a belief firmly articulated by Sheila Sisulu in the early 1990s, where she condemned the propensity to consign "youth unemployment" to the area of youth problems. It is not a youth problem, it is an issue of national priority and concern, and we have to stop expecting that youth structures have the primary responsibility for solving it.

We cannot rest

Young people are the bulk of the South African population. They are restless for opportunity; frustrated and angry that they cannot find ways of working, either in the formal or informal sector, and anxious to participate in initiatives that include them.

If we cannot find ways of allowing them access to all structures of society and the economy, of valuing them, and seeing them as an essential political constituency, they will find their own ways of surviving. And as a nation that has ignored the needs of the youth for so long, we will have no right to complain about the way in which this is done.

Source: "Beyond Statistics: The face of youth unemployment" by Zed Tshabalala, Youth Development Journal, No 2, 1999 p4,5.

THE AIDS STATISTICS ARE GRIM

Mapula Sibanda - Women's Editor, City Press

South Africa's HIV infection rate stands at approximately 4.2 million, half of that population are people in their twenties whom societies rely on to develop communities and to contribute positively to the economy. Last year, along with countries such as Zimbabwe, South Africa rated highly as one of the leading countries with an increase in HIV infections. Experts have warned that we count amongst the countries facing the world's most severe HIV and AIDS epidemic. According to the tenth national antenatal HIV survey conducted in 1999, new HIV infections in South Africa, as in the rest of the continent, are increasing among young and economically active persons. The most affected age group is 25 to 29 years old with a prevalence of 26.4; followed by the 20 to 24 years old, with an infection rate of 25.7 %. Under the age of 20 years, there is a 16.5 prevalence rate. Although the overall South African HIV infection rate seems to have reduced slightly from the 1998 statistics, and is seen to have reached stability, the figures above are a conservative scientific guess on the status of HIV infection in country, as they are derived from a limited sample of women attending antenatal classes in public hospitals.

The National HIV Seroprevalence survey has been conducted annually by the directorate of Health Systems Research since 1990. When announcing the results in April, Health Minister Dr Manto Tshabalala Msimang warned that women in their twenties continue to have the highest HIV prevalence rates.

"This has tremendous impact on the social fabric of the country and on its economy, as this age category represents the youngest portion of our productive class," said Tshabalala Msimang.

According to a recent impact study produced by Abt.Associates and published by loveLife called "The impending catastrophe," more than 50% of infected populations under 20 will not live to be 35. The loss of these young people will happen at the prime of their lives, when they should be at their peak as producers, nurturers, providers and carers in society. The loss of this important sector of society will form part of the six to 10 million are projected to die of AIDS in the next 10 to 15 years. This is the greatest human adversity we will ever face.

In response to these grim statistics, there have been several media initiatives aimed at young people in an effort to stabilise the rate of infection and reduce further spread of HIV by encouraging behavioural change amongst the youth. Ranging from support, care, awareness and education initiatives, what is commonly threading across projects aimed at reducing the infection rate is the rigorous and innovative use of media to communicate and effect that change. One of the most visible campaigns in response to the rising HIV infection amongst the youth is Lovelife. With Zanele Mbeki as their patron, Lovelife is a national collaborative effort which tries to positively influence the sexual behaviour of the youth to reduce teenage pregnancy, Sexually Transmitted Diseases (STDs) and the HIV infection rate. Launched officially in September 1999, loveLife has worked with several non-governmental organisations, government departments and corporates such as the Youth Commission, Planned Parenthood Association of South Africa, Health Department, UNICEF, and others who share similar goals. The campaign's edge is very simple.

Young people are conscious of labels, and are at a vulnerable stage where they are driven by uniformity and conformity to peer group pressure. With the identity of loveLife, which is supported by most young celebrities such as popular singers Ghetto Luv, Ismael, Ashaan and Bongo Maffin's Red, youth are enticed to live a sexually responsible life and to be informed about their choices. The initiative was a response to research results about youth and sexuality which indicated that existing HIV education and awareness programmes had made insignificant progress in affecting sexual behavioural change amongst young people.

The callous and reckless attitudes of young people who engage in sexual relationships earlier than previous generations, has left a destructive trail of teenage pregnancies, a rise in STDs and an increase in the deadly HIV infection. Other concerns include the fact that over a third of South African babies are born to mothers under 18. Surveys indicate that up to 98% of South Africans are aware of HIV/AIDS and know how the HIV virus is transmitted, but that condom usage has remained the same over the past five years.

"Young people in the research said that the way sex has been communicated to them in the past has been boring. They said sex education has largely been authorities preaching and not sharing or talking to them in their level," said television and special projects co-ordinator for Lovelife, Nomonde Gongxeka.

Gongxeka said Lovelife used popular culture to entrench a certain brand of lifestyle which young people could identify with and aspire to. Gongxeka said the initiative opened up a dialogue about sex as most South Africans felt uncomfortable discussing issues of sex and sexuality. "We cannot talk about sex without cringing, but with our programmes we have started to discuss these issues openly without beating about the bush," Gongxeka explained. From studying international campaigns targeting the youth, loveLife learned that single messages and single medium campaigns had limited impact, hence their multimedia and multi message campaign which targets audiences from childhood to young adults.

Informed by research that up to 50% of South Africa's population consists of children under 15, Lovelife maintain that a sustained national initiative driven by popular culture will talk to the youth in a language that they prefer and also understand. As with international campaigns which have made a difference, the programmes preventive strategy is to target the highest risk group to reduce the further spread of HIV and AIDS. Aptly titled 'Foreplay', the campaign kicked off in 1999 across various metropolitan areas with sizzling billboard teasers featuring young celebrities in an aura promising sexual ecstasy. Not long after the public's eyebrows were raised, we were bombarded with life sized billboards with one liners such as 'Oral Sex', with a slug line of "talk about it" printed on the bottom. The same messages were also advertised on taxis.

Through television, Lovelife targets teenagers through programmes such as Jika Jika, Scamto and Codi Loud and Clear. In Jika Jika, a youth talkshow on SABC1, young people interact with experts and amongst themselves on topics ranging from masturbation, teenage pregnancy, love, relationships etc. Scamto, which has been on air on ETV from April 2000, has a talkshow and documentary format that is as creative as it is informative. Here a team of young people, were trained in video and film production before they set off to various provinces to interview their peers about sex and relationships. Mentored by a professional film crew, the young presenters also tell their own stories as a strategy to draw out the youth and make them comfortable about discussing sexual matters on television. For kids between six and 12, SABC 2's popular animated character Codi of Tube was roped in to introduce a segment of "Codi, loud and clear" to encourage parents to talk to their children about sex and sexuality. All television programmes are supported by a Youth Helpline, a toll free 0800 000 001 made available through a partnership with the National Youth Commission. Here, trained counsellors and volunteers take calls from youth seeking information about their problems. After counselling, the

youth are referred to relevant services. Besides broadcasting, the campaign is also backed by print material supporting each programme and print media is used to make the youth aware of the various services. The project's partnership with YFM's "Youth Cross Fire" is an hour-long-no-holds-barred talkshow between 7:30 and 8:30pm hosted by DJ Paul Rude Boy Mnisi on Thursdays has helped entrench their brand of 'talk about it'.

Following YFM's success, Gongxeka said other stations such as 5fm, Metrofm have been targeted with soundscapes or programming that includes sexual health and gender issues. "Soon we will be represented on African language stations and we are also targeting community radio to include the rural youth," said Gongxeka.

LoveLife's products persuade youth to associate with a certain lifestyle that is about making choices and being responsible for their actions and consequences. As with any campaign of this magnitude, Lovelife was met with resistance from conservative parents, some of whom have expressed fear about open discussions promoting sexual decadence. They support calls for moral restoration and the encouragement of chastity and abstinence for the youth instead. It is understandable that dissatisfaction from this camp may be a case of "too much change too soon". These are the same parents who only associate sex education with promoting youth to engage in premature sexual relations. Other critics have expressed concern that the campaign is focussed too much on urban areas and forgets about the rural youth.

Gongxeka said plans to incorporate broader community radio was a response to the needs of the rural youth and that other aspects of the campaign such as the piloting of youth centres and embarking on roadshows was aimed at offering all youth equal services. The centres, currently in Orange Farm near Soweto, in Northern Province's Eikenhof and in Eastern Cape's Motherwell and Bloemfontein's Kutlwana are said to be one-stop-shops where youth can get information from career guidance to advice on contraception.

"People have to understand that as a new campaign we started operating on a trial and error basis and we are also guided by business imperatives on how to roll out our national programme," said Gongxeka. Even though LoveLife is one of the most intensive programmes on curbing the HIV epidemic and other sexually related problems in the youth, there are still some limitations. The use of language can be said to be one. With their

publicity one liners such as "Oral sex, talk about it," English has come to dominate the media campaign could mean that the majority of the black youth are not being reached.

There are other campaigns with more modest budgets than the millions which the Henry J Kaizer Family Foundation and donors such as the Bill and Melinda Gates has pumped into Lovelife, who rely mainly on media publicity to get to their audience. Positive Women's Network and the Soweto Youth Drama serve as examples. These organisations rely heavily on volunteers and respond to needs on a day-to-day basis due to lack of funds.

Focusing on education for behavioural change, the Soweto Youth Drama Society (SYDS) has a touring play called 'Let us talk about it' which talks to the conscience of the youth about being sexually responsible. It is through radio and newspapers that SYDS communicates with audiences to let them know about their performances.

Playwright Peter Ngwenya said the media enables them to make an impact. *"Through drama and various means of communication we make a great contribution in educating people, especially the youth, about the epidemic and to warn them about preventing the disease from spreading further,"* said Ngwenya. Unlike SYDS, Positive Women's Network looks at campaigns beyond raising awareness. Like Lovelife, they are aware of the problem of information saturation and have established a partnership with SisterLove, a United States group, to empower and support women living with HIV and AIDS. Through the media, the group facilitates outreach programmes in Pretoria and surrounding cities and townships where they are based. Group leader and person living with HIV, Prudence Mabele, can be heard or seen on various broadcasting and print media commenting on HIV issues or educating positive women about their choices.

It is their vision to train young women with skills, and to eventually offer support programmes such as low cost housing and employment creation. In seeking solutions using the media as a communication tool, most programmes have taken into consideration some of the factors affecting the behaviour of young people which makes them a vulnerable to HIV infection.

These factors include poor educational standards, chauvinism and sexism which affect power relations, unemployment, collapse of family structures, lack of knowledge on human reproduction, lack of recreational facilities which elevates sex to be the main form of recreation etc. These are

taken into consideration when designing media campaigns aimed at young people. Campaigners agree that solutions should involve social mobilisation to develop an expanded response to the epidemic as AIDS represents an urgent global challenge for all. Partnerships to engage in collaborative efforts of education, improving social and economic status through job and wealth creation, eradicating illiteracy etc, are recommended.

Some of the campaigns like Lovelife promise to be punctuated with research to identify whether the campaigns are effecting any behavioural change, but most of the projects have no way of measuring their efforts apart from using their will to save lives by touching lives.

Over a decade into the epidemic for South Africa, saving the youth, may be just one of the many strategic aspects to fight the epidemic. Otherwise, we risk watching the young die, our country being drained of potential productive resource and losing out on global competitiveness, or placing far too heavy a burden on governmental finances and resources.

WORLD ECONOMIC CRISIS: AN INSIDER'S VIEW

By Joseph Stiglitz

Protestors who have trashed recent meeting of the International Monetary Fund or the World Trade Organisation say the IMF is arrogant, doesn't really listen to the developing countries it is supposed to help, and is secretive and insulated from democratic accountability. They say the IMF's economic "remedies" often make things worse—turning slowdowns into recessions, and recessions into depressions.

And they have a point. I was chief economist at the World Bank from 1996 until November 1999, during the gravest global economic crisis in a half-century. I saw how the IMF, in tandem with the US Treasury Department, responded. And I was appalled.

The global economic crisis began in Thailand, on July 2, 1997. The countries of East Asia were coming off a miraculous three decades: incomes had soared, health had improved, poverty had fallen dramatically. Not only was literacy now universal, but, on international science and math test many of these countries outperformed the United States. Some had not suffered a single year of recession in 30 years.

But the seeds of calamity had already been planted. In the early 1990s, East Asian countries had liberalised their financial and capital markets—not because they needed to attract more funds (savings rates were already 30% or more) but because of international pressure, including some from the US Treasury Department. These changes provoked a flood of short-term capital—that is, the kind of capital that looks for the highest return in the next day, week, or month, as opposed to long-term investment in things like factories. In Thailand, this short-term capital helped fuel an unsustainable real estate boom. And, as people around the world (including Americans) have painfully learned, every real estate bubble eventually bursts, often with disastrous consequences. Just as suddenly as capital flowed in, it flowed out. And, when everybody tries to pull their money out at the same time, it causes an economic problem. A big economic problem.

The last set of financial crises had occurred in Latin America in the 1980s, when bloated public deficits and loose monetary policies led to runaway inflation. There, the IMF had correctly imposed fiscal austerity

(balanced budgets) and tighter monetary policies, demanding that governments pursue those policies as a precondition for receiving aid. So, in 1997, the IMF imposed the some demands on Thailand. Austerity, the fund's leaders said, would restore confidence in the Thai economy. As the crisis spread to other East Asian nations-and even as evidence of the policy's failure mounted-the IMF barely blinked, delivering the same medicine to each ailing nation that showed up on it doorstep.

I thought this was a mistake. For one thing, unlike the Latin American nations, the East Asian countries were already running budget surpluses. In Thailand, the government was running such large surpluses that it was actually starving the economy of much-needed investments in education and infrastructure, both essential to economic growth. And the East Asian nations already had tight monetary policies and inflation was low and failing. (In South Korea, for example, inflation stood at a very respectable 4%.) The problem was not imprudent government, as in Latin America; the problem was an imprudent private sector-all those bankers and borrowers, for instance, who'd gambled on the real estate bubble.

Under such circumstances, I feared, austerity measures would not revive the economies of East Asia- it would plunge them into recession or even depression. High interest rates might devastate highly indebted East Asian firms, causing more bankruptcies and defaults. Reduced government expenditures would only shrink the economy further.

So I began lobbying to change the policy. I talked to Stanley Fischer, a distinguished former Massachusetts Institute of Technology economics professor and former chief economist of the World Bank, who had become the IMF's first deputy managing director. I met with fellow economists at the World Bank who might have contacts or influence within the IMF, encouraging them to do everything they could to move the IMF bureaucracy.

Convincing people at the World Bank of my analysis proved easy, changing minds at the IMF was virtually impossible. When I talked to senior officials at the IMF-explaining, for instance, how high interest rates might increase bankruptcies, thus making it even harder to restore confidence in East Asian economies-they would at first resist. Then, after failing to come up with an effective counter-argument, they would retreat to another response: if only I understood the pressure coming from the IMF board of executive directors-the body, appointed by finance ministers from the advanced industrial countries, that approves all the IMF's loans. Their

meaning was clear. The board's inclination was to be even more severe; these people were actually a moderating influence. My friends who were executive directors said they were the ones getting pressured. It was maddening, not just because the IMF's inertia was so hard to stop but because, with everything going on behind closed doors, it was impossible to know who was the real obstacle to change. Were the staff pushing the executive directors, or were the executive directors pushing the staff? I still do not know for certain.

Of course, everybody at the IMF assured me they would be flexible. If their policies really turned out to be overly contractionary, forcing the East Asian economies into deeper recession than necessary, then they would reverse them. This sent shudders down my spine. One of the first lessons economists teach their graduate students is the importance of lags: it takes 12 to 18 months before a change in monetary policy (raising or lowering interest rates) shows its full effects. When I worked in the White House as chairman of the Council of Economic Advisers, we focused all our energy on forecasting where the economy would be in the future, so we could know what policies to recommend today. To play catch-up was the height of folly. And that was precisely what the IMF officials were proposing to do.

I shouldn't have been surprised. The IMF likes to go about its business without outsiders asking too many questions. In theory, the fund supports democratic institutions in the nations it assists. In practice, it undermines the democratic process by imposing policies. Officially, of course, the IMF doesn't "impose" anything. It "negotiates" the conditions for receiving aid. But all the power in the negotiations is on one side—the IMF's—and the fund rarely allows sufficient time for broad consensus-building or even widespread consultations with either parliaments or civil society. Sometimes the IMF dispenses with the pretence of openness altogether and negotiates secret covenants.

When the IMF decides to assist a country, it dispatches a "mission" of economists. These economists frequently lack extensive experience in the country; they are more likely to have firsthand knowledge of its five-star hotels than of the villages that dot its countryside. They work hard, pouring over numbers deep into the night. But their task is impossible. In a period of days or, at most, weeks, they are charged with developing a coherent programme sensitive to the needs of the country. Needless to say, a little number-crunching rarely provides adequate insights into the development strategy for an entire nation. Even worse, the number-crunching isn't

always that good. The mathematical models the IMF uses are frequently flawed or out-of-date. Critics accuse the institution of taking a cookie-cutter approach to economics, and they're right. Country teams have been known to compose draft reports before visiting. I heard stories of one unfortunate incident when team members copied large parts of the text for one country's report and transferred them wholesale to another. They might have gotten away with it, except the "search and replace" function on the word processor didn't work properly, leaving the original country's name in a few places. Oops.

It's not fair to say that IMF economists don't care about the citizens of developing nations. But the older men who staff the fund-and they are overwhelmingly older men-act as if they are shouldering Rudyard Kipling's white man's burden. IMF experts believe they are brighter, more educated, and less politically motivated than the economists in the countries they visit. In fact, the economic leaders from those countries are pretty good-in many cases brighter or better-educated than the IMF staff, which frequently consists of third-rank students from first-rate universities, (Trust me: I've taught at Oxford University, MIT, Stanford University, Yale University, and Princeton University, and the IMF almost never succeeded in recruiting any of the best students.) Last summer, I gave a seminar in China on competition policy in telecommunications. At least three Chinese economists in the audience asked questions as sophisticated as the best minds in the West would have asked.

As time passed, my frustration mounted. (One might have thought that since the World Bank was contributing literally billions of dollars to the rescue packages, its voice would be heard. But it was ignored almost as resolutely as the people in the affected countries.) The IMF claimed that all it was asking of the East Asian countries was that they balance their budgets at a time of recession. All? Hadn't the Clinton administration just fought a major battle with Congress to stave off a balanced-budget amendment in this country? And wasn't the administration's key argument that, in the face of recession, a little deficit spending might be necessary? This is what I and most other economists had been teaching our graduate students for 60 years. Quite frankly, a student who turned in the IMF's answer to the test question *"What should be the fiscal stance of Thailand, facing an economic downturn?"* would have gotten an F.

As the crisis spread to Indonesia, I become even more concerned. New research at the World Bank showed that recession in such an ethnically divided country could spark all kinds of social and political turmoil. So in late 1997, at a meeting of finance ministers and central-bank governors in

Kuala Lumpur, I issued a carefully prepared statement vetted by the World Bank: I suggested that the excessively contractionary monetary and fiscal programme could lead to political and social turmoil in Indonesia. Again, the IMF stood its ground. Michel Camdessus, the then managing director of IMF, said there what he'd said in public: that East Asia simply had to grit it out, as Mexico had. He went on to note that, for all of the short-term pain, Mexico emerged from the experience stronger.

But this was an absurd analogy. Mexico hadn't recovered because the IMF forced it to strengthen its weak financial system, which remained weak years after the crisis. It recovered because of a surge of exports to the United States, which took off thanks to the US economic boom, and because of NAFTA.

By contrast, Indonesia's main trading partner was Japan-which was then, and still remains, mired in the doldrums. Furthermore, Indonesia was far more politically and socially explosive than Mexico, with a much deeper history of ethnic strife. And renewed strife would produce massive capital flight (made easy by relaxed currency-flow restrictions encouraged by the IMF). But none of these arguments mattered. The IMF pressed ahead, demanding reductions in government spending. And so subsidies for basic necessities like food and fuel were eliminated at the very time when contractionary policies made those subsidies more desperately needed than ever.

By January 1998, things had gotten so bad that the World Bank's vice president for East Asia, Jean Michel Severino, invoked the dreaded r-word ("recession") and d-word ("depression") in describing the economic calamity in Asia. Lawrence Summers, then deputy treasury secretary, railed against Severino for making things seem worse than they were, but what other way was there to describe what was happening? Output in some of the affected countries fell 16% or more. Half the businesses in Indonesia were in virtual bankruptcy or close to it, and, as a result, the country could not even take advantage of the export opportunities the lower exchange rates provided. Unemployment soared, increasing as much as tenfold, and real wages plummeted-in countries with basically no safety nets. Not only was the IMF not restoring economic confidence in East Asia, it was undermining the region's social fabric. And then, in the spring and summer of 1998, the crisis spread beyond East Asia to the most explosive country of all-Russia.

The calamity in Russia shared key characteristics with the calamity in East Asia-not least among them being the role that IMF and US Treasury policies played in abetting it. But, in Russia, the abetting began much earlier.

Following the fall of the Berlin Wall, two schools of thought had emerged concerning Russia's transition to a market economy. One of these, to which I belonged, consisted of a melange of experts on the region, Nobel Prize winners like Kenneth Arrow and others. This group emphasised the importance of the institutional infrastructure of a market economy—from legal structures that enforce contracts to regulatory structures that make a financial system work. Arrow and I had both been part of a National Academy of Sciences group that had, a decade earlier, discussed with the Chinese their transition strategy. We emphasised the importance of fostering competition—rather than just privatising state-owned industries—and favoured a more gradual transition to a market economy (although we agreed that occasional strong measures might be needed to combat hyperinflation).

The second group consisted largely of macro-economists, whose faith in the market was unmatched by an appreciation of the subtleties of its underpinnings—that is, of the conditions required for it to work effectively. These economists typically had little knowledge of the history or details of the Russian economy and didn't believe they needed any. The great strength, and the ultimate weakness, of the economic doctrines upon which they relied is that the doctrines are—or are supposed to be—universal. Institutions, history, or even the distribution of income simply do not matter. Good economists know the universal truths and can look beyond the array of facts and details that obscure these truths. And the universal truth is that shock therapy works for countries in transition to a market economy: the stronger the medicine (and the more painful the reaction), the quicker the recovery. Or so the argument goes.

Unfortunately for Russia, the latter school won the debate in the Treasury Department and in the IMF. Or, to be more accurate, the Treasury Department and the IMF made sure there was no open debate and then proceeded blindly along the second route. Those who opposed this course were either not consulted or not consulted for long. On the Council of Economic Advisers, for example, there was a brilliant economist, Peter Orszag, who had served as a close adviser to the Russian government and had worked with many of the young economists who eventually assumed positions of influence there. He was just the sort of person whose expertise Treasury and the IMF needed. Yet, perhaps because he knew too much, they almost never consulted him.

We all know what happened next. In the December 1993 elections, Russian voters dealt the reformers a huge setback, a setback from which they have yet really to recover. Strobe Talbott, then in charge of the non-economic aspects of Russia policy, admitted that Russia had experienced "too much shock and too

little therapy." And all that shock hadn't moved Russia toward a real market economy at all. The rapid privatisation urged upon Moscow by the IMF and the Treasury Department had allowed a small group of oligarchs to gain control of state assets. The IMF and Treasury had rejiggered Russia's economic incentives, all right-but the wrong way. By paying insufficient attention to the institutional infrastructure that would allow a market economy to flourish-and by easing the flow of capital in and out of Russia-the IMF and Treasury had laid the groundwork for the oligarchs' plundering. While the government locked the money to pay pensioners, the oligarchs were sending money obtained by stripping assets and selling the country's precious national resources into Cypriot and Swiss bank accounts.

The United States was implicated in these awful developments. In mid-1998, Summers, soon to be named Robert Rubin's successor as secretary of the treasury, actually made a public display of appearing with Anatoly Chubais, the chief architect of Russia's privatisation. In so doing, the United States seemed to be aligning itself with the very forces impoverishing the Russian people. No wonder anti-Americanism spread like wildfire.

At first, Talbott's admission notwithstanding, the true believers at Treasury and the IMF continued to insist that the problem was not too much therapy but too little shock. But, through the mid- 1990s, the Russian economy continued to implode. Output plummeted by half. While only 2% of the population had lived in poverty even at the end of the dismal Soviet period, "reform" saw poverty rates soar to almost 50%, with more than half of Russia's children living below the poverty line. Only recently have the IMF and Treasury conceded that therapy was undervalued-though they now insist they said so all along.

Today, Russia remains in desperate shape. High oil prices and the long-resisted ruble devaluation have helped it regain some footing. But standards of living remain far below where they were at the start of the transition. The nation is beset by enormous inequality, and most Russians, embittered by experience, have lost confidence in the free market. A significant fall in oil prices would almost certainly reverse what modest progress has been made.

East Asia is better off, though it still struggles, too. Close to 40% of Thailand's loans are still not performing, Indonesia remains deeply mired in recession. Unemployment rates remain far higher than they were before the crisis, even in East Asia's best-performing country, Korea. IMF boosters suggest that the recession's end is a testament to the effectiveness of the agency's policies. Nonsense. Every recession eventually ends. All the IMF did was make East

Asia's recessions deeper, longer, and harder. Indeed, Thailand, which followed the IMF's prescriptions the most closely, has performed worse than Malaysia and South Korea, which followed more independent courses.

I was often asked how smart-even brilliant-people could have created such bad policies. One reason is that these smart people were not using smart economics. Time and again, I was dismayed at how out-of-date-and how out-of-tune with reality-the models Washington economists employed were. For example, macro-economic phenomena such as bankruptcy and the fear of default were at the centre of the East Asian crisis. But the macro-economic models used to analyse these crises were not typically rooted in micro-foundations, so they took no account of bankruptcy.

But bad economics was only a symptom of the real problem: secrecy. Smart people are more likely to do stupid things when they close themselves off from outside criticism and advice. If there's one thing I've learned in government, it's that openness is most essential in those realms where expertise seems to matter most. If the IMF and Treasury had invited greater scrutiny, their folly might have become much clearer, much earlier. Critics from the right, such as Martin Feldstein, chairman of Reagan's Council of Economic Advisers, and George Shultz, Reagan's secretary of state, joined Jeff Sachs, Paul Krugman, and I in condemning the policies. But, with the IMF insisting its policies were beyond reproach-and with no institutional structure to make it pay attention-our criticisms were of little use. More frightening, even internal critics, particularly those with direct democratic accountability, were kept in the dark. The Treasury Department is so arrogant about its economic analyses and prescriptions that it often keeps tight- -much too tight-control over what even the president sees.

Open discussion would have raised profound questions that still receive very little attention in the American press: To what extent did the IMF and the Treasury Department push policies that actually contributed to the increased global economic volatility? (Treasury pushed liberalisation in Korea in 1993 over the opposition of the Council of Economic Advisers. Treasury won the internal White House battle, but Korea, and the world, paid a high price.) Were some of the IMF's harsh criticisms of East Asia intended to detract attention from the agency's own culpability? Most importantly, did America- and the IMF-push policies because we, or they, believed the policies would help East Asia or because we believed they would benefit financial interests in the United States and the advanced industrial world? And, if we believed our policies were helping East Asia,

where was the evidence? As a participant in these debates, I got to see the evidence. There was none.

Since the end of the Cold War, tremendous power has flowed to the people entrusted to bring the gospel of the market to the far corners of the globe. These economists, bureaucrats, and officials act in the name of the United States and the other advanced industrial countries, and yet they speak a language that few average citizens understand and that few policymakers bother to translate. Economic policy is today perhaps the most important part of America's interaction with the rest of the world. And yet the culture of international economic policy in the world's most powerful democracy is not democratic.

This is what the demonstrators shouting outside the IMF and the WTO were trying to say. Of course, the streets are not the best place to discuss these highly complex issues. Some of the protesters are no more interested in open debate than the officials at the IMF are. And not everything the protesters say will be right. But, if the people we entrust to manage the global economy—in the IMF and in the Treasury Department—don't begin a dialogue and take their criticisms to heart, things will continue to go very, very wrong. I've seen it happen.

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BEYOND ALL THE SUMMITS

By Noam Chomsky

The United Nations summit in New York in September was the second major gathering of government leaders marking the millennium. The first was the South summit in Havana in April. The UN summit received considerable national publicity, while the South summit was barely reported, a reflection of the "imbalance" in the global system that it deplored.

The South summit brought together heads of state of the "Group of 77" (G77), now 133 countries, accounting for 80% of the world's population. The name G77 is carried over from the founding meeting of the UN Conference on Trade and Development (UNCTAD) in 1964, attended by 77 of the "developing countries." The April 2000 summit was of unusual importance. The first meeting ever at the level of heads of state, the summit focussed on the concern that the South is "collectively endangered" by the global economic system that has been instituted by the rich countries.

A leading third world journal described the summit as "a defining moment in G77 history," ending on "a note of confidence and determination from the leaders to work together to bring about a new world order based on equity and fairness," with South-South co-operation as a centrepiece and a plan of action seeking significant changes in the global system (Third World Economics, Penang).

In the New York Times' Week in Review, UN correspondent Barbara Crossette reported that the summit "denounced the global economy and its symbols" (the World Bank, IMF, and WTO), dismissing it as insignificant because "slogans and oratory do little to illuminate the profound complexity of human development in the new economic order." According to "development experts," for the poor "nothing could be more irrelevant than global theories or rants against multinational corporations." "The experts," who recognise the "profound complexities," prefer serious measures to deal with them: for example, persuading multinationals to "help workers improve their lives" and inducing "big international institutions" to adopt policies that "work for all levels of society."

The experts are also bemused by the "irony" that the World Bank is moving dramatically into social programs ... just as protestors operating on outdated images single it out for attack." Translating to the real world, the World Bank is reacting to protestors who have been operating for years on quite accurate images, as the experts now tacitly concede; whether the

reaction will pass beyond rhetoric depends substantially on the dedication of the critics who are largely responsible for bringing it about.

Each summit produced a declaration. The Declaration of the UN summit consisted largely of pieties, though at least one resolution had a certain bite: "to encourage the pharmaceutical industry to make essential drugs more widely available and affordable by all who need them in developing countries." There is little need to elaborate on the extraordinary human catastrophes to which the resolution alludes, and it is clear enough who bears the primary responsibility to address them.

One central topic, much discussed in commentary, was what Secretary-General Kofi Annan described in his call to the summit as "the dilemma of intervention": "national sovereignty must not be used as a shield for those who want only to violate the rights and lives of their fellow human beings." That much is generally agreed, at least at the rhetorical level. But the rift appears with Annan's next sentence: "In the face of mass murder, armed intervention authorised by the Security Council is an option that cannot be relinquished." The US and its allies, which monopolise military power, adopt a very different stance: they insist on their unique right of armed intervention without such authorisation. Annan is relatively popular in the West because of his efforts to accommodate the interests of the rich and powerful, but in this case he sided with the South summit, which rejects what it calls "the so-called 'right' of humanitarian intervention" by the powerful in violation of the UN Charter and "the general principles of international law."

The Declaration of the South summit also "firmly reject[s] the imposition of laws and regulation with extra-territorial impact and all other forms of coercive economic measures, including unilateral sanctions against developing countries." The declaration calls on "the international community neither to recognise these measures nor apply them," alluding obliquely to US initiatives, primarily. The declaration insists on "the right of developing countries, in exercise of their sovereignty and without any interference in their internal affairs, to choose the path of development in accordance with their national priorities and objectives." It views "with alarm the recent unilateral moves by some developed countries to question the use of official policy as a development tool," reiterates "the fundamental right of each State to determine its own fiscal policies," and reaffirms "that every State has the inalienable right to choose political, economic, social and cultural systems of its own, without interference in any form by other States." It calls for "reformulation of policies and options on globalisation from a development perspective and is sharply

critical of the specific forms of international integration that have been imposed by concentrated political and economic power - what is called "globalisation" in Western rhetoric, often depicted as a neutral force to which "there is no alternative," in Thatcher's famous slogan.

These calls are directed primarily to Washington. The same is true of the call to "promote respect for all universally recognised human rights and fundamental freedoms, including the right to development." The first part is ritual incantation: the right to development the US has forcefully rejected.

For the South summit, "our highest priority is to overcome underdevelopment, which implies the eradication of hunger, illiteracy, disease and poverty." The UN summit adopted similar wording. "Although this is primarily our responsibility," the South summit declares, "we urge the international community to adopt urgent and resolute actions with a comprehensive and multidimensional approach, to assist in overcoming these scourges, and to establish international economic relations based on justice and equity." It goes on to deplore "symmetries and imbalances that have intensified in international economic relations to the severe detriment of the South", and calls for reform of "international economic governance" and "international financial architecture" to make them "more democratic, more transparent and better attuned to solving the problems of development," reviewing current problems in some detail.

The declaration also warns that "the prevailing modes of production and consumption in the industrialised countries are unsustainable and should be changed, for they threaten the very survival of the planet." Furthermore, "technological innovations should be systematically evaluated in terms of their economic, social and environmental impact, with the participation of all the social sectors involved," including "groups that have not traditionally been part of this process" -- almost everyone. It calls on "the developed countries to fulfil their commitment to provide developing countries with financial resources and environmentally-sound technologies on a preferential basis." Further provisions also elaborated in some detail will not be unfamiliar to the ranting protestors with their outdated images.

Annan's recommendations to the UN summit included implementation of the Kyoto Protocol on greenhouse gases; providing "the necessary resources" for the UN "to carry out its mandates," specifically its "peacekeeping operations"; debt relief, and "more generous [overseas] development assistance" (ODA). In all of these categories, the US has a special responsibility, though it is not alone.

The US has been evading the Kyoto protocol, and has one of the worst records for violating it: emissions have in fact considerably increased. The US is notorious for its refusal to meet its funding obligations for the UN, including peacekeeping operations. In July, the House and Senate Appropriations committees again rejected an administration request for a miserly \$107 million for peacekeeping expenses in Kosovo and East Timor, while cutting the small request for peacekeeping by almost 50% to \$500 million. Debt relief remains words, tied to strict conditionalities ("reforms"). ODA has declined sharply in the past 10 years, most radically in the US, which by now provides virtually nothing, far less than other industrial countries as a proportion of GNP; by far the leading beneficiary of the minuscule ODA budget is a rich country, Israel, with Egypt second by virtue of its relations with Israel.

When the Cold War ended, the conventional self-applause held that at last Western elites could now act in accord with their ideals and treasured values. So they did, expressing their ideals and values with great clarity as soon as there was no longer any need for even cynical gestures to the poor, the space for non-alignment having disappeared.

The standard version holds that the end of the Cold War coincided with the discovery that trade is more helpful to the poor than aid. Accordingly, Annan called on the rich countries to open their markets to goods produced in the South. On that they have been dragging their feet, while demanding free access for their own products and services and using a variety of methods to impose their will. Among these are trade barriers and subsidies that are direct or hidden "under the rubric of 'defence'," as remarked by then-World Bank chief economist Joseph Stiglitz, deploring the mixture of liberalisation and protectionism in them that is labelled a "free trade" regime, geared to the wishes of the masters of the economy. Just as the South summit was gathering, the Clinton Administration announced its opposition to a World Bank proposal to allow the poor countries of Africa, Asia, and Latin America to export to the US without tariffs or quotas- that would provide "a huge economic advantage for those developing countries," the New York Times reported. This was "going significantly beyond the administration's efforts to get Congress to forgive their debts as they undergo economic reforms". In other words, facilitating the take-over of their economies by Western firms. The World Bank and IMF endorse the complaint of the South "that the United States and other rich nations are using their enormous prosperity and technology to grow rapidly at the expense of countries being left far behind by economic globalisation". A similar process continues internally.

While the Declaration of the UN summit is more muted than -that of the South, behind the scenes the mood seems to have been similar. A good report in the Boston Globe by John Donnelly is headlined "African leaders lash out," accusing the UN and the West of "keeping (the) continent in poverty. "The " overriding theme" of the African heads of state, Donnelly reports, is that "the forces of globalisation are enriching the West anew while sentencing them to even more misery." This is essentially the message of the South summit.

"They said the Western powers talked a good game about the benefits of globalisation to Africa, but then stood by as corporations plundered riches from the continent," following the classic pattern, sometimes assisted by World Bank programmes: for example, the Bank's demand for privatisation in Gambia, leading to elimination of the peanut industry by a foreign buyer that shifted processing abroad so that the country now imports its own product.

African leaders pointed out that the "voices in the street" in the West are repeating what "the developing countries have been saying for many years in various international fora with little success." Several suggested that "an alliance was possible." That has been taking shape at the grass-roots level, an impressive development, rich in opportunity and promise, and surely causing no little concern in high places.

SOUTH AFRICA'S RESPONSE TO GLOBALISATION

BY BEN TUROK,

South Africa is in deep discussion about globalisation and its impact on the transition to democracy. There is considerable concern that the pressures to integrate into the world economy will have negative effects on the South African economy, and on the conditions of life for its people. While it is accepted that globalisation is inescapable, and that it offers both threats and opportunities, there is a view that it is necessary to take substantial steps to ensure that globalisation does not impact negatively on the country. There are already grounds for the belief that globalisation is bearing down on South Africa's macro-economic policies, on spending, on employment and many other facets of policy.

Manuel Castells, paid a visit to South Africa last year and met with top public leaders. His discussions were private but the message is clearly set out in an article by Hein Marais, *"Sink or Swim"* published in Leadership Magazine. Castells is saying that the world brand of capitalism is "implacable and cruel", and countries are either in a network or locked out. Globalisation is sundering the world into dynamic, information-based "new" economies on the one hand, and vast deteriorating "old" economies dominated by informal and survival activities on the other. In this divide, Africa, including South Africa, runs the risk of being obliterated.

The same divisions are reproduced within countries. If the whole country is not marginalised; a minority may experience prosperity based on their integration into "globally networked capitalism" while the majority are excluded. This, rather than blanket marginalisation, is probably the fate of South Africa today.

This apocalyptic vision of a polarised world was reinforced in an uncharacteristically emotional speech by Michel Camdessus as he prepared to retire as Managing Director of the IMF earlier this year. In a speech before the Council on Foreign Relations, he spoke more freely than usual about his concerns for the world economic order. Also, for someone with a lifetime pursuing international financial stability, he was candid about the difficulties involved since "we must always expect the unexpected".

What was surprising about his speech was its candour. He argued that the plight of the poorest people is the "ultimate systemic threat". Despite all the efforts over 50 years, per capita income in many of the poorest countries has declined, debt has increased and poverty remains widespread. At the same time, the future holds the prospect of integration of markets and massive global capital flows, coupled with "the potential for a surge in extremism and violence if we are not able to reverse the trend towards greater inequalities... the period of calm we have bought for the world at a high price may be short lived." (*IMF Survey Feb 7, 2000*)

For one who knows more about the world economic order than perhaps anyone else, these words, uttered on the verge of retirement, are rather ominous, perhaps even more remarkable since he went on to advocate the very remedies which are associated with the problems he identified.

Many developing countries have to tailor their participation in the world system in the full knowledge that they are being sucked into a globalisation process in which they are victims rather than agents. While there are some voices which urge alternatives, these are not yet well formulated or systematic, and Third World leaders have yet to be convinced that these options are open to them. The neo-liberal paradigm continues to prevail.

At a recent policy conference of the African National Congress of South Africa, President Mbeki gave much attention to the phenomenon of globalisation. *"Whether we like it or not, we are part of the world economy, it would neither be possible nor desirable to cut ourselves off from the world economy."*

This means that South Africa has to identify its global comparative advantages, attract the necessary investment into these sectors, remain at the cutting edge with regard to science and technology, as well as management and work organisation, skill the workforce, and get onto the information super-highway.

He pointed out that globalisation which is associated with the rapid movement of huge volumes of capital across the globe, it affects the sovereignty of small states like South Africa and their power to take their own decisions. He urged that the ANC make its own input into the universal struggle for the establishment of a New World Order.

He continued; *"The danger we face as a country is that the impact of technology will result in further widening the gap between ourselves and the*

developed world, resulting in our further marginalisation. We need to close the digital gap between ourselves and the developed world. This is critical to everything we have to do to ensure that we expand, restructure and modernise our economy to integrate it in the global economy in a manner that helps our central objectives of providing a better life for all."

Is this how South Africa should respond to globalisation in order to meet the challenge of "a better life for all" in a democratic country as promised? The problem becomes even more acute when it is coupled with the requirement that macro-economic stabilisation is enforced to meet the pressures of external and domestic investors and their related institutions. Even worse, it seems that great sensitivity has to be exercised about "perceptions", rather than reality, on the part of ill-informed international financial speculators.

INTERNATIONAL RELATIONS

Since the establishment of democracy in 1994, the government has made strenuous efforts to establish friendly relations with many international players. One of the first was to join the Commonwealth, another was the Bilateral Commission headed by then Deputy President Mbeki and US Vice President Gore, which was followed by several similar Commissions with other countries. South Africa became a major player in the OAU, the Southern African Development Community, and negotiated a special trade agreement with the European Union.

South Africa was elected to head UNCTAD, the Non-Aligned Movement, the Commonwealth, and was given a leading role in the meetings of the IMF and World Bank, the G24, as well as the WTO. It was included in the special grouping of the G20 which includes the G7 and large Third World powers. All this took much effort and was the result not only of the country's popularity but also of a conscious decision to ensure favourable international relations with trading partners and important international forces.

In addition, South Africa has sought to establish special trading relations with Latin America and Asia in order to strengthen South-South relations. In these forums, it has made a plea for solidarity in the face of other powerful pressures. All of this illustrates that there are no illusions about the possibility of retreating into isolationism.

MACRO-ECONOMIC POLICY

The global hegemony of neo-liberalism has made a considerable impact on South Africa's policies. The country has been under the magnifying glass of the Bretton Woods institutions, of international fund managers, rating agencies, banks, and governments. The demand from all these is that the economic policy is governed by measures to ensure stabilisation, budget deficit reduction, low inflation and the usual package of structural adjustment programmes. There are constant reminders that what matters most are the "perceptions" of investors. These seem to be more important than the performance of the real economy. It is argued that the economy cannot achieve the desired growth of 6% of GDP without foreign investment. There is almost no distinction between the need for foreign direct investment and portfolio investment since any capital inflows assist in sustaining the reserves and are supposed to reflect investor confidence.

Currently the government has adopted inflation targeting of 3%-6% to bring down inflation, partly on the grounds that South Africa has to be in line with its trading partners. But it may be that this also has to do with conforming to "perceptions" held by the global investment industry.

While there are serious economists who believe that bringing inflation down from the present level of 8% would bring more pain than it is worth, the decision has been made and both the Ministry of Finance and the Reserve Bank are now committed to this. Critics like Nick Barnard argue there is no empirical evidence that growth and employment in emerging economies are boosted by reducing inflation from 8% to 5%. The more strenuous the attempts to crush inflation down from its natural 6% to 9% range of the past eight years, the more the economy's growth performance has worsened, the more unemployment has risen and the more unstable the currency has become.

"Output and employment growth are again being held hostage to the theoretical monetary constructs devised and pursued by those more interested in international acclaim than in pursuing the needs of the poor and unemployed back home" (Business Day August 17, 2000)

The government is now under considerable pressure from this kind of scepticism of economists and from the trade union movement which is insisting ever more vociferously that macro-economic discipline has been overdone and has led to increasing job attrition. However the government insists that it must pursue macro-economic discipline in order to remedy

the financial problems that developed under apartheid.

In the 1980's, the world turned on the heat through financial isolation which became so effective that it hastened the end of the apartheid regime. From 1970 to 1985, the country relied heavily on annual inflows of foreign savings which averaged about 2% of GDP. Sanctions, political conflict, exchange controls and the debt standstill contributed to a reversal of this trend, with annual outflows of 2.5% of GDP from 1985 to 1993. This led to a substantial currency depreciation and necessitated restrictive demand management policies, intensified capital controls and trade restrictions. (Budget Review, 2000, Dept of Finance, RSA p 17)

When the new government came into office, it saw its first task as the removal of the isolationist elements of economic relations, and then, since globalisation was already widely accepted, integrating into the global economy. The change in capital inflows began in the early 1990's as the democratic transition began to take shape. The new government introduced a relaxation of foreign exchange controls which encouraged foreign investment, higher capital market liquidity and improved capital allocation. Since 1994, South Africa has annually received foreign savings averaging 1% of GDP. Unfortunately, inward portfolio investment outperformed foreign direct investment. But government and parastatals were able to increase their foreign borrowing. Despite their unsettling volatility, portfolio investment into the equity market is seen to be important.

Since the reduction of exchange controls, foreign portfolio holdings by South African institutions have increased by approximately R 60 billion since 1994. Several large South African companies have listed overseas recently, contributing to the inflow of funds. These institutions argue that they need to diversify their assets worldwide and also that raising capital is cheaper externally due to the high interest rates in South Africa. Nevertheless, there is a view that such external listing is damaging to the economy.

The opening up of financial relations has been accompanied by similar moves in trade and industrial relations.

INDUSTRIAL POLICY

The South African economy was built behind protectionist walls from the 1920's onwards. Very substantial economic infrastructure was created and large parastatals in steel, chemicals, communications and transport were set

up which also had the function of providing employment to white people under the label of the "civilised labour policy". Nonetheless, the country's industrialisation proceeded apace, bringing into play the substantial natural resources available. To some extent, protectionism was turned to advantage in the system of apartheid, reinforcing racial distinctions.

However, much of industry and agriculture was not competitive, since both had been heavily subsidised. Also, in the latter years of apartheid, a special export incentive scheme was needed to assist exports.

In 1994, the democratic government set about removing most of these support measures, arguing that the New World Order required the country to be competitive on world markets and on the domestic market against cheap imports. The previous agricultural marketing boards were disbanded and farmers were expected to sell their products overseas without the nurturing provided before.

In response to GATT and WTO requirements, tariffs were reduced sharply, even exceeding the levels required by these rules. The simple average import tariff dropped from more than 30% in 1990 to just above 14% by 1998. In addition the number of tariff lines was reduced from 13 000 in 1990 to 8 000 in 1998, while tariff bands decreased from 200 to 72.

Exports grew strongly from 1994 to 1999 at an average annual level of 7.4 %. In real terms, imports increased at an annual average rate of 7.9 % during this period. (Budget Review Ibid. p 19)

Enterprises and farmers were told to move to more efficient productive methods and move up the value chain. Some argued that South Africa should become a hi-tech, hi-skill, hi-wage economy able to compete worldwide.

The official view is that South Africa must take cognisance of the global trend of rapid advances in information technology to transform economies of scale by, for instance reducing the size of inventories and thereby working capital. This process has begun in South Africa with financial services in particular, being modernised. There is a certain concern about the penetration of global companies, especially in banking services.

At the same time, there is also a concern about modernising domestic public enterprises in energy, telecommunications and transport with increased private sector involvement. Most state-owned enterprises

have been corporatised or put on a business footing. Restructuring of the four largest state-owned enterprise - Eskom, Telkom, Transnet and Denel - are meant to maximise economic efficiency and expand competition, as well as help reduce state debt. It is argued that this will result in the increased availability of funding for social services and infrastructure. It is hoped that this will in turn lead to lower interest rates, boost investor confidence, enhance South Africa's ratings, and bring in more private sector capital, much of it external.

The Budget Review states; *"In other countries, privatisation has acted as a catalyst for subsequent foreign direct investment... Potential short-term job losses are likely to be rapidly compensated for by employment creation through additional economic growth."*

Employment is, however, a major problem. The labour supply continues to increase by about 2% a year or about 487 000 potential workers, while about 330 000 learners matriculate each year. The unemployment rate is computed in varying ways, giving a figure ranging from 22% to 37%. There is also some debate about the compensating scale for formal sector job losses by the informal sector, though it is acknowledged that the latter provides lower quality jobs with fewer safeguards and additions.

The fact is that industry and agriculture are shedding a great deal of labour, causing unemployment to rise substantially. While there has been a compensating tendency in the informal sector to take up the slack, the jobs are often not comparable.

The trade union movement has reacted vigorously to the loss of jobs. There have been nationwide strikes and threats to pull out of the political alliance with the ANC. At present these may only be indications of great disenchantment, but if the alliance were to be broken, it could have a destabilising effect.

The leading trade union federation, COSATU, which is in alliance with the ANC, complains about the government's dogmatic and blind pursuit of deficit reduction at the expense of economic growth, employment and service delivery. It has called for a more flexible macro-economic policy. It proposes that the budgetary process start by attempting to quantify the remaining social backlogs, calculating the resources needed to meet these backlogs and from there on to develop short, medium and long term strategies for financing the eventual elimination of the backlogs. However this position is unlikely to be accepted by government.

At the recent national congress of the militant National Union of South Africa Metal Workers, their former senior official and now Minister for Trade and Industry, Alec Erwin, argued that globalisation entailed many changes to which South Africa had to adapt, changes that were not just a plot by the IMF and World Bank, but were rooted in production processes which had to be understood and for which there was no choice. He conceded that globalisation widened the gap between rich and poor, but said; *"Our response is not to say we are not going to be part of globalisation, we have to have a clear strategic response."*

He also defended the government's macro-economic policy which aimed at macro balance between inflation, balance of payments, exchange rate, savings and investment. This involved tightening the deficit, stabilising prices, bringing down interest rates, and stabilising the balance of payments. (Business Day, August 23, 2000)

Alec Erwin was earlier thrust onto the international stage when he became president of UNCTAD. In that capacity, he was heavily involved in international dialogue on trade matters and was drawn into critical discussions within the WTO. Having accepted that South Africa's increasing integration into the global system was inescapable, he argued that integration through trade had to take account of the unequal playing field on which developing countries were obliged to perform. This was dominated by the fit and strong, and was exacerbated by globalisation in its present form by isolating and marginalising the weak. Hence, it was essential that the game be played according to rules, and, equally important, developing countries had to form their own economic co-operation zones. (Speech at the first WTO Ministerial Meeting 12 November 1996)

For South Africa, the game is primarily driven by the department of trade and industry, which offers its vision of creating an integrated economy which enabled products and services to compete in the world economy through higher productivity, innovation, good commercial governance and strategic world-wide partnership. This included becoming a world-class manufacturing and trading nation, a highly competitive investment destination, and a platform for competitive global integration, (DTI in Perspective 1999)

THE STATE

The state system inherited by the democratic government included large bureaucracies in the former Bantustans, where the African people were supposed to enjoy "independence". They had a bloated civil service, in which corruption was rampant. The new government set about cleaning up these administrations and integrating them into a single public service.

However, government also responded to current international opinion by committing itself to a lean state. Hence, civil service retrenchment has taken place in some areas, "restructuring" is underway in key parastatals, and some privatisation is under consideration. All these measures are expected to worsen the employment figures.

Government's economic goals include the reduction of the public sector. New regulatory initiatives, competition policy and restructuring state assets are in place. (Review p 21)

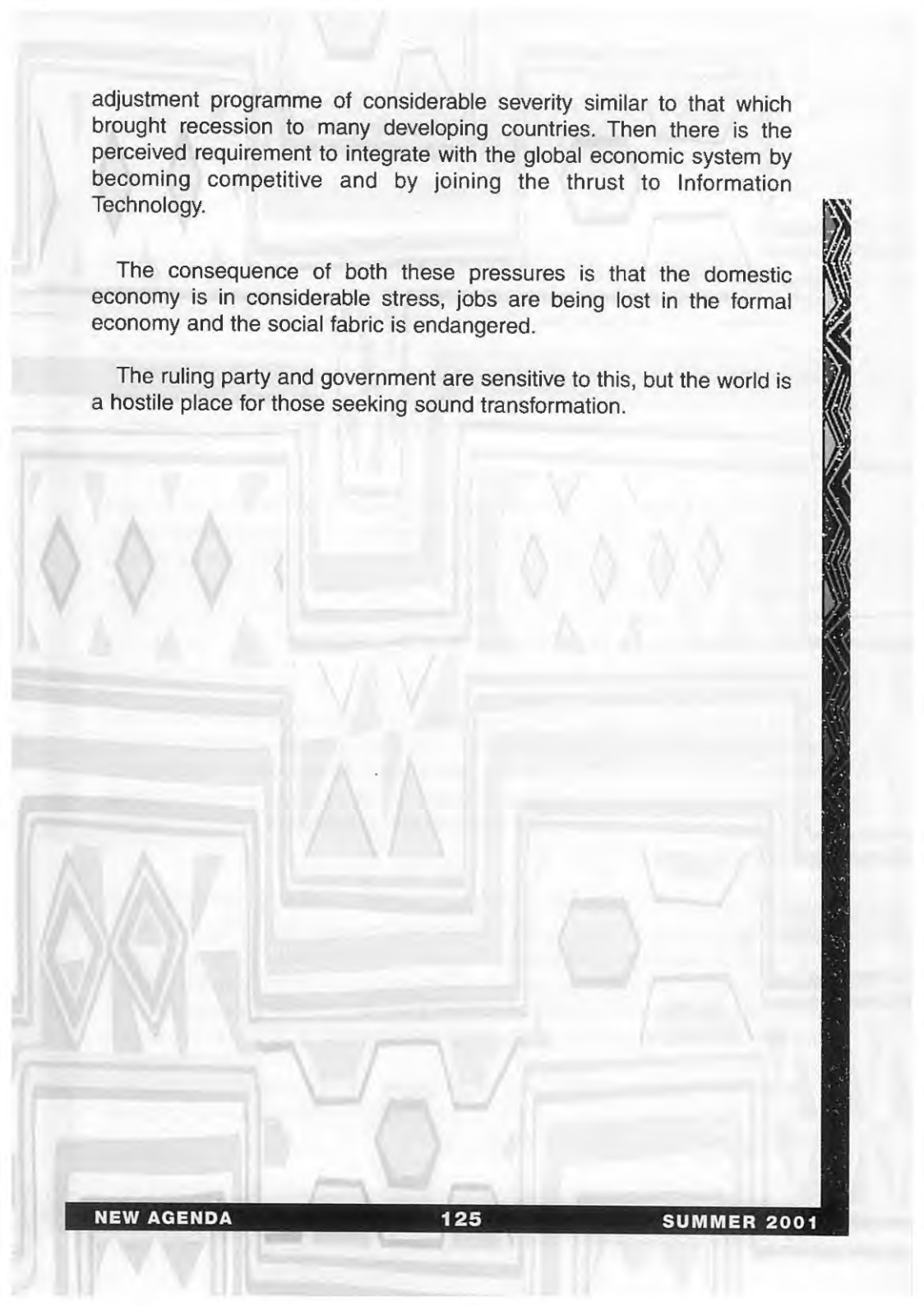
As part of general tightening of the state sector, final consumption expenditure by general government and gross capital formation by the public sector declined from 26% in 1990 to 23% in 1999. The goal is to lower consumption expenditure to 19% of GDP by 2002. (Review Ibid. p 23) It is expected that fixed capital formation will rise in the coming years.

A commitment to fiscal stability is shown by Government's net dissaving of 7.3% of GDP in 1992, falling to 3.5% in 1998 it is expected to fall to 1% of GDP over the next three years through containing expenditure and a rising tax to GDP ratio by substantially improved revenue collection.

CONCLUSION

The legacy of apartheid was a racially divided society based on white minority domination. The political overthrow of that system is well underway. If circumstances were more favourable, the socio-economic transformation needed would also have proceeded in an orderly manner, given that national reconciliation is largely accepted and that obstruction by "old guard" personnel can only operate in a relatively confined manner.

But the global environment poses increasingly difficult conditions for the transition. First there are enormous pressures for "sound macro-economic fundamentals" to be in place, which amount to an imposed structural

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adjustment programme of considerable severity similar to that which brought recession to many developing countries. Then there is the perceived requirement to integrate with the global economic system by becoming competitive and by joining the thrust to Information Technology.

The consequence of both these pressures is that the domestic economy is in considerable stress, jobs are being lost in the formal economy and the social fabric is endangered.

The ruling party and government are sensitive to this, but the world is a hostile place for those seeking sound transformation.

"The Social Implications of Globalisation"

by Jay Mazur.
Senior Official AFL-CIO

We are beginning to define this new age that is upon us. We know that, at one level, globalisation is an economic process. It is driven by advances in technology and strategic decisions by multinational corporation's that are rapidly integrating world markets and creating new international systems of production and supply. This we can all see, and I think agree on. It is when we attempt to analyse the impact of this economic process, the social implications of globalisation, that we find ourselves still struggling to forge a consensus.

Let us grant that globalisation has stimulated international trade and investment and raised the standard of living for many people. Until quite recently, this was the dominant theme associated with globalisation. There was very little fruitful dialogue on the subject. We were being told that "all is for the best in the best of possible worlds." Then, one week last November, in the city of Seattle, another voice was finally heard, and it isn't going away.

It is the voice of those who have been overlooked and left out of the benefits of this new economic age. It is the voice of workers, in both developed and developing nations, whose rights have been trampled by the headlong pursuit for profits. It is the voice of family farmers and small business people whose livelihoods have been destroyed by the power of multinational corporations.

It is the voice of untold millions of people whose air and water have been contaminated and for whom globalisation has brought little or no relief from the terror of starvation and deadly disease. It is the voice of those uprooted from families and communities and hurled into this brave new globalised world without the skills or political power to work and live with respect and dignity. This, too, is globalisation, and it is not working for working people.

When we speak of the social implications of globalisation, I assume we mean its impact on society, on our political institutions, our cultural identities, our human relationships.

Here, in this arena, we are faced with the agony and tragedy of globalisation. A process with the potential for bringing together the peoples of the world, for turning swords into plowshares, and want into abundance, instead is a process that is widening the gap between the haves and the have not's.

Never before have so few benefited so much from the labour of so many. The concentration of wealth and power in the hands of multinational corporations is overwhelming national states. Of the 100 largest economies in the world, 51 are corporations-the other 49 are countries.

Globalisation is creating a system of astonishing inequality both between and within nations. When the assets of the 200 richest people in the world are greater than the combined income of the two billion people at the other end of the economic ladder, there are profound social implications. Every day the distant parts of the world more and more are connected, the desperately poor and the fabulously rich, the powerless and the powerful. The world of work is more connected, but the rewards of work are more disconnected.

Does anyone doubt that this is a recipe for disaster? Such islands of concentrated wealth in a sea of misery have historically been a prelude to social upheaval. This is not to revisit the sterile debate on the merits of free trade and protectionism. We have not come to curse the darkness, but to shed some light. We have come to examine the social dimension of free trade and globalisation, and what we see, from the perspective of working people, is something close to criminal neglect.

But this is also a way to right this wrong. Over the past decade, the policies of governments and their international trade and financial institutions have been directed almost exclusively toward maximising the freedom of capital.

Trade barriers have been lowered. Markets de-regulated. Financial controls removed. Public services privatised. The range, velocity and agility of capital have been enhanced to an extraordinary degree.

This freedom is protected by voluminous and highly detailed agreements and programmes. There is an elaborate machinery of

enforcement. The rules are strict and specific. Penalties for violation are severe.

But where are the rules that protect the rights and freedom of ordinary working people in this new system? What are the penalties for corporations that fire workers who try to organise a union or negotiate a collective bargaining agreement? What are the sanctions against governments that turn a blind eye to the brutal exploitation of labour?

It is true that most nations have laws on their books that theoretically guarantee their own versions of life, liberty and the pursuit of happiness.

It has always been difficult to secure the effective enforcement of these laws, but the advent of globalisation has turned much of the world into a kind of economic Wild West in which the rule of law and the social values it reflects cannot be sustained. But there is a way for us to make globalisation less savage and more civilised. There is a way for us to embrace the progressive promises of the future without surrendering to the blind impulses of the past.

Indeed, we have only to look at our own history to inform this new vision of globalisation that is slowly and painfully taking shape. Over the course of much of the past century, in the most advanced capitalist countries, we learned that the market, by itself, could create havoc as well as wealth, famine as well as feast, oppression as well as opportunity.

We learned that some degree of regulation was necessary if markets were to reflect our values and meet our needs as a society. And so laws were passed to temper the social distortions shaped by unrestrained capital and markets. Mechanisms were created to enforce these laws, countervailing institutions were developed to moderate the power of capital in the workplace and the broader political discourse.

These reforms were supported by broad sectors of society, including leaders of the business community. It is abundantly clear that this social contract must accompany the process of economic globalisation as it gathers more and more of the world's people into its powerful grip. For globalisation, as it has been defined and practiced over the past decade, is intellectually bankrupt, politically suspect and economically out of control.

I would suggest to you that we need nothing less than a global New Deal. Debt relief, aid, and yes, access to markets for developing countries, but access conditioned on rising standards that empower working people and strengthen democratic institutions.

This is not a protectionist ploy, as critics of the labour movement caricature our position. This is the principle the European Union has applied as it has gradually integrated nations with great economic, political and social disparities.

It is a principle that I believe I heard stated recently by a prominent visitor to the United States. I don't agree with everything that the President of Mexico, Vicente Fox, said at that time, but what he did say broke new ground well worth exploring.

NAFTA is not working for American workers. It is not working for Mexican workers, who have seen their real wages fall by 25% since the beginning of NAFTA. The way to fix NAFTA is neither by building higher walls of isolation, nor by continuing down the same blind path hoping that somehow it will all turn out well in the long run.

The best way to move forward is by forging more equitable bonds of co-operation. This can only happen by addressing the huge economic and social disparities between our two nations. By lifting upward the standards of Mexican workers, not by bringing down the standards of American and Canadian workers.

By building into NAFTA a social dimension, a social compact, that affords the same protection to labour rights now enjoyed by property rights.

For years we have been told that there can be no social contract in trade and financial treaties because developing countries like Mexico will not discuss common labour market problems.

But the President-elect of Mexico has proposed changes in labour market rules and practices. He wants enforceable labour standards for Mexican workers in the United States.

That's a good place to begin the discussion on enforceable labour rights and standards for workers in all three countries - The United

States, Canada and Mexico. A good place to begin the discussion on how the enforcement of those standards, including the right of workers to form independent unions, might be part of a broader development programme aimed at reducing the disparities that are at the source of so many problems.

For too long the great debate on globalisation has been reduced to labels that are increasingly meaningless. Labour is protectionist, big business are free-traders. Not true. That is behind us! In fact, I find the attempt by corporations and most governments to resist worker and environmental rights in trade agreements as the new protectionism.

They want to protect the power they now exercise to exploit workers and the environment without regard to the human consequences. They want to protect themselves against the sometimes inconvenient demands of industrial and political democracy. They want the freedom to buy and sell as they wish, without the responsibility for the social implications of their commerce.

It is a vision that looks backward, not forward. It is a vision that is narrow and dangerous.

We can and must do better. We can deepen the dialogue toward defining sensible global rules-protection of basic worker rights, environmental and consumer and workplace regulations-toward creating a new global regulatory system that will make the system work for working people.

As you know, this conference coincides with the UN's millennial summit. What better time and place to pledge ourselves to transforming the Universal Declaration of Human Rights into living law. And what better place to begin than with the ILO's core labour standards, agreed to by virtually every government on earth. Prohibition of child labour, forced labour, discrimination and the right to freedom of association and collective bargaining.

These standards should be incorporated into the protocols of every international economic and financial institution, beginning with the WTO, the World Bank and the IMF, with effective enforcement mechanisms.

If the history of the past century has demonstrated anything, it is that

organised workers, with the power to gain a fair share of the fruits of their labour and to defend their legal and human rights, has proven to be one of the great engines of democratic transformation.

And so as we look at this new complicated century and the ideas that will shape it, let me leave you with the plain words of an old American prairie preacher named Oscar Amerenguer.

"Money is like manure," he said. "Spread it around and it makes things grow. Pile it up in one place, it makes a big stink."

GET THE BANKS OFF OUR BACKS

By A Nene

For 54 years, the IMF and the World Bank have been able to have their annual meetings in style. Not that there were not occasional demonstrations, but these did not appear to present a real threat. The protests against the World Trade Organisation meeting in Seattle in November 1999 changed that, and gave the rulers of the globe a huge fright. Seattle, despite over 500 arrests, was a triumph of protest and civil disobedience, but for the authorities it was a "fiasco" which shouldn't be allowed to happen again.

This was followed by sharply vociferous protest at the IMF and World Bank Spring 2000 meeting in Washington, at the G7 annual meeting in Okinawa in July, and the 55th Annual Meeting of the World Bank Group and the Board of Governors of the International Monetary Fund in Prague.

The propaganda of the IMF and World Bank suggests that they have done nothing to deserve this hostility. When Horst Kohler took control of the IMF, he told the world that the IMF should get the credit for the extension of markets and democracy over the last 50 years. The World Bank now emblazons its publicity with the slogan "Our dream is a world free of poverty". And when its head, James Wolfensohn, spoke on Asia to a Harvard conference on "Global leadership" he was anxious to talk about "the Asia I know". This was not the Asia of five star hotels but that of "families living in huts, of raw sewer-infested canals where children swim ... villagers struggling seasonally to survive, while their looms sit idle ... [and] young mothers [who] sell their bodies to support their children and feed their family".

In fact, the IMF and World Bank are institutions under siege. As global capitalism hit the rocks in the 1990s in places as far apart as Mexico, East Asia and Russia, they applied their standard medicine and proceeded to make things much worse. Three of America's most prominent economists-Jeffrey Sachs, Paul Krugman and Joseph Stiglitz (the ex chief economist at the World Bank)-who in the past have not been afraid to sing the praises of the market are now bitter critics. A committee of the US Congress, which drew together right wing and liberal critics earlier this year, even proposed an enormous reduction in the role of these two organisations.

Insider critics

And that's where the current charm offensive comes in, for, as the Financial Times columnist Martin Wolf put it, "it is impossible to defend the status quo without qualification. There have been too many disasters". But the problems still continue. Each year, the World Bank produces an annual development report. A top economist is invited to help prepare it. This year, to improve their image, they asked a well-known liberal development economist, Ravi Kanbur. Within months he had resigned, apparently frustrated at the way in which the bank's research department was reluctant to take seriously the arguments that a solution to the problems of the world's poor had to include a redistribution of wealth and income. The dream maybe "a world free of poverty" but not, it seems, at the expense of the rich and powerful.

The arguments of these insider critics provide powerful ammunition against the IMF and World Bank, but they are not enough. Experience shows that support for global capitalism is built into the structures of these organisations. And behind them, thinly veiled, stand the interests of the US Treasury, Wall Street and the global corporations of the advanced world. The drive is therefore to pursue the neo-liberal agenda whatever the consequences, and just to put a bit more effort into marketing it.

The history of the IMF and World Bank goes back to the Bretton Woods conference of 1944, where representatives of America and Britain attempted to plan the reorganisation of world capitalism at the end of the Second World War. The idea was simple. Capitalism needed a prosperous global economy. The World Bank Group (for it is really a cluster of institutions) would be developed to provide longer-term development help to the poorer countries. The International Monetary Fund would watch over the world's financial system, providing short-term help and assistance to economies to allow them to get through crises. A third organisation-the International Trade Organisation-would police the trade system to ensure that free trade took place. In the event, the ITO never got off the ground and it was replaced by Gatt (the General Agreement on Trade and Tariffs) through which the liberalisation of world trade was loosely organised, especially from the 1960s. But in the 1990s the World Trade Organisation was created to take over Gatt's role and become the new trade policeman, -effectively establishing the trinity of organisations that had been thought of more than half a century ago.

But by this time, much had changed in the world economy, and the recent history of these organisations goes back more to the changes in global capitalism that took place in the 1970s. These had three aspects. Firstly, with American capitalism no longer so dominant, US policy makers decided to shift the focus of their international economic aid towards the IMF-World Bank. The thinking was that these "international" institutions would provide a more neutral face behind which the interests of the most powerful sections of global capitalism could operate. As "international bodies" they would generate less hostility when they acted and would be insulated more from pressures from within countries. As the American politician Jesse Jackson put it in 1993; "They no longer use bullets and ropes. They use the World Bank and the IMF." There was also the added bonus that the financing of their operations could be shared more with other advanced states.

The second aspect was the new instability of global capitalism. As the long post-war boom came to an end, the central role of the US dollar as an international currency collapsed. Currency values were now determined on a daily basis by market fluctuations, causing currencies to float up and down as speculative capital washed around the world economy. Even advanced economies could be hit as confidence drained in the ability of a government to keep up the value of its currency. But worst hit were the poorer countries. With the slowdown, the prices of key commodities collapsed while oil prices and interest rates were pushed up.

The result was a growing debt crisis, which would periodically explode into a major financial crisis as nervous investors withdrew funds at the first signs of developing trouble. This gave the IMF and World Bank the leverage they needed, for, with markets rocketing, the price of assistance to weak governments was the acceptance of the agenda of these institutions.

The change in this agenda was the third aspect which created the current situation. These institutions had always had a strong free market bias. But in the 1970s they became champions of the thinking that would define the Reagan-Thatcher era. The official story is that this was a reaction to the bitter lessons of government failure, but the evidence is that the ideological rethinking was the thing that came first. The problems of global capitalism it was now argued, were not the irresponsible actions of huge companies, not the fault of global inequality, but of governments themselves pursuing the wrong policies and interfering too much. Stop this and the world economy would boom again, stability would come back and development would occur. And the way to achieve this was through what became known as Structural

Adjustment Programmes. Help would be conditional on liberalising trade and capital flows, cutting back government expenditure while raising taxes on the poor, and setting entrepreneurs free.

Over time, the IMF and the World Bank came to work increasingly closely together. In theory they have different functions and there has always been some rivalry between them. But it was argued that good local development policies could only work if "sensible" national economic policies were pursued. The US also pushed for increasing harmony, and, when the WTO was created, the aim was for them all to speak with the same globalising, free market voice. Despite the disruption of the WTO meeting in Seattle they still managed to announce that *"the IMF, the World Bank and the WTO will continue to work together closely ... to help increase the coherence of policy making"*.

But the recipe has not worked. Usually the poor suffer, growth suffers, some economic indicators might improve for a while, but then a new crisis comes along. For years the story was that it didn't need to happen because the Asian Tiger economies showed that success was possible, but then in 1997 they went down one after another too. Debt levels have continued to rise. Mexico in 1982, for example, with a debt of some \$82 billion, was one of the first countries to be subjected to a broader Structural Adjustment Programme. By 1994, when the economy crashed again, the debt level had risen to \$140 billion. But this has just served to increase the stranglehold of the IMF-World Bank. Clearly, they said, the old governments had not tried hard enough. The new ones would have to show even more willingness. And so the crazy system goes on.

Echoes of empire

Since the 1980s, more than 90 countries have been forced to sign up to some kind of Structural Adjustment Programme which gives the representatives of these governments enormous leverage. Jeffrey Sachs, whose own hands helped mould some of the earlier programmes, now writes that "without the debt overhang, the IMF's role in Africa would shrink dramatically... under current arrangements, the IMF has become Africa's proconsular power, holding the finances of the continent in its hands". What he means by this is that the IMF representatives are like the "consuls" sent out to rule the British Empire from London at the end of the 19th century and around whom all the local rulers gravitated. And it is not just Africa. I remember watching Bulgarian television in the autumn of 1997, and seeing

as the first item of news the arrival of the IMF representative at Sofia airport. She come to make her periodic check on the extent to which that country's adjustment programme was being followed through.

Yet, ironically, all this costs very little, for these institutions work in insidious ways. One facet of this is the way that they manipulate the political and economic debate. Describing the role of the World Bank, two of its supporters write that it "is the single most important external source of ideas and advice to developing country policy makers". But, they add, "it is difficult to pinpoint a single important idea or method in development economics that has its origin in the World Bank". This apparent contradiction is easily solved, for what the World Bank does, in the words of one critic, is to "disguise a multi-million dollar ideological programme as research." Like the IMF, the World Bank is dedicated to proving the value of the free market. *"A period of service in one of these organisations provides the best training for economic policy makers in the world today,"* writes John Williamson, a long-term British insider. The idea is to have friends inside as well as outside. In this way supporters can praise an institution like the bank for *"assisting development in the presence of weaknesses and distortions in member countries domestic political processes"* - a phrase that we will leave readers to translate into plain English.

In the past, this has led these institutions to stand four square behind some of the world's most brutal dictatorships. Today this can be embarrassing but the basic philosophy has changed little-if their aims can be achieved through some kind of democracy, then all the better, but if it needs authoritarian rule, then so be it.

A second facet of their operation is the way that they use crisis to achieve their ends. With economic indicators going haywire and governments panicking, the IMF's role is simple. Everything must be done to keep currencies stable and keep the value of foreign investments up. Huge resources are devoted to supporting the foreign exchange rate-loans, which are simply recycled into investors' pockets while crisis measures are inflicted at home. In each of the major crises of the 1990s, the result was still that currencies collapsed-but that was not the point. Much international speculation involves loans for 90 days or less, and short-term assistance is therefore crucial to keeping up its value. Sachs puts this well: *"The IMF has listened too closely to Wall Street in recent years... The key interests of these short-term investors is straight forward... If you are a US bank with investments [in an economy in crisis] the main thing you want is for [that country] to maintain*

its currency exchange rates until the time that you have been paid-after that, who cares?"

The third facet of their operation is, then, the longer-term loans and development aid for which they extract their conditions. Even these are not what they seem. Most loans are at near market rates and therefore become linked to the debt problems. Defending the role of the World Bank, US Treasury Secretary Larry Summers recently boasted that people shouldn't worry too much about its (relatively small) costs because half its loans came out of interest earned on previous loans. Even the claims about market criteria turn out to be hollow, as the World Bank has often pushed white elephant projects. But it is not too difficult to see why when it is realised that for every dollar the US gives to it to hand out, it is estimated that two dollars come back in terms of contracts for American business.

Bending the Rules

This well illustrates the two faced nature of these institutions. The one place where their prescriptions are not applied is to themselves. Who will run them is stitched up by deals between the American and European governments-an acceptable European to run the IMF and an acceptable American to run the World Bank. At times it smacks of corruption. The new chief economist of the World Bank is Nicholas Stern-a British public school educated economist fresh from running the European Bank for Reconstruction and Development's policies in Eastern Europe. Unfortunately his brother is also a big figure in the bank and the rules forbid family clans developing-after all, isn't this what happens in corrupt dictatorships in the Third World? Never mind-let's bend the rules. What else goes on remains murky-the collusion at institutional level with corrupt governments, the deals on the side with contract research, and financial speculation by insiders and family members.

Welfare for bankers

What is not in doubt is how lucrative it is working for these organisations. Not for them job cutbacks. Their staff continues to expand. And not for them salary cutbacks, for these are the government fat cats to beat all government fat cats. The World Bank is coy about what its staff earn. The IMF is more open. Salaries there are up to 50% or more higher than in domestic American institutions, and foreigners get theirs tax-free. If you come from a poor country, a year at the IMF can set you up for life. And it's not just the

not just the salary. If we take the period 1997-2000, then the IMF salary bill rose by 25%, other personnel expenses by 14%, and business and other travel by 21%. Exactly how all this was distributed is not clear from the organisation's accounts. Possibly the lowliest secretaries do very well, but logic suggests that the benefits were focused on the key workers. However the results are revealing enough if we divide these bills by total staff. The average salary was over \$1 00 000 per employee. Other personnel expenses average \$50 000 per employee and travel expenses average over \$30 000 per employee!

Nor do their prescriptions apply in the advanced world. The world's biggest debtor economy is the US. Applying IMF logic to its position, there should be massive austerity programmes to clear the debt. But exactly the opposite applies. When the US is in difficulties then everyone else is asked to expand their economies to help it-exactly the prescription that the IMF denies to the poorer countries. Abolish trade barriers-of course, if you are poor. But if it is the protection of the strong in Europe and America, then no chance, despite the fact that these are estimated to cost developing countries \$700 billion a year. Indeed with the attempt to develop patents and intellectual property rights controlling everything from plant genes and seeds to vital medicines, the problem is likely to become even worse, with control by a few giant corporations enforced across the world. *"It is outrageous,"* writes a spokesman for Oxfam, *"that loan conditions are used to promote policy reforms in poor countries-such as agricultural market liberalisation, rapid trade liberalisation, financial market deregulation-which would be rejected in G7 countries."*

He is right, but outrage is not enough. The protesters in Prague were quite right to attack the IMF and the World Bank, but it is important to see behind them to the interests that they represent. It is this that makes them so powerful. One of the most effective propaganda campaigns against them was run by Jubilee 2000 to end the debt of the poorest countries in the world. So effective was it that much was promised last year. But little or nothing has been delivered, because at the end of the day, it is the powerful states themselves, and the financial and business interests within them, that have ultimate control. Nor are these just concentrated in the advanced world. The agenda of support for private property, the protection of wealth, cutbacks and flexible wages has obvious appeal to local ruling classes everywhere.

The language of the recent insider debate on the future of these organisations has been revealing. Two supporters of their role defend them by

arguing that *"if the IMF is to be less of a fireman it must become more of a policeman ... the IMF must play a continued role in the surveillance of its member countries, focusing on their financial policies"*. This is a line of thought continued by US Treasury Secretary Summers. If the IMF-World Bank role is reduced, he writes, then *"from Thailand to Bulgaria to Brazil, our capacity to influence the direction and policies of these economies in ways that support global interests would be lost"*.

Note those phrases "our capacity" and "global interests"-just what do they mean? Strip the jargon away and the interests of the few stand out. The IMF-World Bank are like policemen-corrupt policemen-and a decent world would have no need for them. But getting rid of them is not enough. Behind every corrupt policeman stands the paymasters who hold the real strings that allow them to function.

Double standards

In turn, our function is to expose the double standards practised in the inflexibility of the rulers applied and the kickbacks for United States businesses in order to develop a comprehensive counter strategy for development.

Globalisation: The Road from Seattle

By Rob Davies

The term "globalisation", according to the United Nations Development Programme's Human Development Report 1997, "encapsulates both a description and a prescription" (p 82).

The description, according to the UNDP, refers to *"the widening and deepening of international flows of trade, finance and information in a single integrated global market"* (Ibid.). At the level, of objective features and characteristics, at least the following are relevant:

Globalisation emerged at a particular historical period

"World systems" theorists (e.g. Immanuel Wallerstein) have argued that in addition to the short run cycles of boom and bust intrinsic to capitalist development, global capitalism also develops through "long waves" of expansion and contraction. According to such theorists, the period between the end of the Second World War and the mid-1970s was a "long wave" of expansion. The mid to late 1970s saw the system entering into crisis and a "long wave" of contraction. The period since then has been one of massive destruction and restructuring of capital. Some of its key features have included:

- ▶ a sharp shift in the terms of trade against primary products and primary product producers;
- ▶ The emergence of new technologies, particularly info-technology.
- ▶ Rising indebtedness of many "developing" countries.

A transition from an international to a transnational mode of operation mode of operation of the capitalist world economy

Linked to the above, Eric Hobsbawm argues, in his *Age of Extremes: The Short Twentieth Century 1914 -1991*, that until the late 1960s, although countries traded with each other to a growing extent, "the bulk of their economic activities remained home-centred" and the basic modus operandi of the world economy remained international. From the late 1960s on,

however, an "increasingly transnational economy began to emerge" characterised by "a system of economic activities for which state territories and state frontiers are not the basic framework, but complicating factors".

"Some time in the early 1970s" writes Hobsbawm, "such a transnational economy became an effective global force. It is this transition from an international to a transnational world economy that essentially defines "globalisation" as a new phase of imperialism. It has been facilitated by the introduction of new info- and communications- technologies that have made capital, financial and commodity flows much more rapid, but it cannot be reduced to technicist changes at this level alone. It is much more fundamentally a process of restructuring the entire modus operandi of global capitalism.

The emergence of "globally networks capitalism"

This phrase is associated with the writings of Manuel Castells. According to Castells, "globalisation" should be understood as shorthand for "globally networked capitalism". What defines it is not so much large trans-national corporations, but rather constantly shifting networks of economic activity. Increasingly, economic activity (production, distribution and exchange) is being organised into networks spanning across national borders. Countries, sectors, and peoples are either "in" or "out". Those that are "out" are increasingly being marginalised with dire consequences for incomes and living standards. This has been accompanied by increasingly strong competitive pressures on national economies and productive sectors to adapt to the norms of globally networked capitalism. Elements of this include pressures on enterprises to focus on their "core business", to "downsize" and "outsource" peripheral activities.

The pursuit of an agenda seeking freer movement of commodities, capital and financial instruments across national frontiers

Linked to the above, has been an important shift in the way in which globally dominant capital has come to define its interests in the world economy. This is no longer focused, as it was at earlier stages of imperialism, just on ensuring access to cheap raw materials in "third world countries", plus whatever degree of access to foreign commodity and capital markets could be obtained that was compatible with maintaining protected access to one's own home market. The current agenda of globally networked capital now seeks a much broader and far reaching

breaking down of barriers to the free movement of commodities and capital across national boundaries as well as the removal of impediments to the location of production processes across the globe. Notably excluded from this agenda of liberalisation, however, is labour. Rather than pursuing an agenda of free movement of workers to wherever labour conditions are more favourable, globally dominant capital has sought the right and ability to move economic activity to areas of the world where labour standards are lower and labour power is consequently cheaper. Pressures have been exerted on national states to create conditions for freer movement of capital and commodities through, inter alia, the rules of the World Trade Organisation, the conditionalities of the IMF and World Bank and the impact of globalised currency and capital markets (which now react with frightening speed against any country seen not to be conforming)

A strengthening of multi-lateral institutions of global economic regulation.

The process of liberalisation and deregulation at national level has been accompanied by a strengthening of regulation at global level. Institutions like the World Trade Organisation (WTO) have become more important and influential, regulating not just trade in commodities, narrowly defined, but an increasing list of "trade related" issues like intellectual property rights, investment measures etc.

The growing financialisation of foreign investment

In a special edition of *New Left Review* (no 229), Robert Brenner argues that by the mid-1970s the concentration of industrial capital had reached the point where, in an increasing range of sectors, the time needed to realise the returns on the very large fixed investments required had become longer than the time before those investments become obsolete. This, according to Brenner, was the major cause of the onset of the crisis and downturn of the mid-1970s. Restructuring in the period since has seen:

- ▶ growing protectionism within advanced capitalist countries with respect to "grandfather" industries vulnerable to competition from newcomers.
- ▶ the "financialisation" of investment, with capitalist investors increasingly shying away from long term commitments to "bricks and mortar" projects in favour of shorter term exposures that can more easily be entered into and exited from.

The latter would explain the shift towards "hot money" evident at the present stage of globalisation.

The unevenness and growing inequalities of globalisation

As indicated earlier, the term globalisation is also associated with a "prescription" or a set of ideological constructs. "The prescription", according to the United Nations Development Programme's 1997 Human Development Report, *"is to liberalise national and global markets in the belief that free flows of trade, finance and information will produce the best outcome for growth and human welfare"*.

"All is presented", says the UNDP, *"with an air of inevitability and overwhelming conviction. Not since the heyday of free trade in the 19th Century has economic theory elicited such widespread certainty"*. This prescription and ideology has been variously described as "neo-liberalism" and the "Washington consensus". It has been held out as the only response to globalisation, and the only path to avoid the perils of marginalisation.

The conviction with which the ideological prescription associated with globalisation has been promoted was premised on a view that the "opening up" of markets was a process that brought with it only benefits. More recently, all but the most die-hard neo-liberals have been forced to acknowledge both that the process of "opening up" markets at the global level has been highly uneven, and that the distribution of costs and benefits has been extremely unequal.

The 1987-1993 Uruguay Round of Multi-Lateral Trade Negotiations was largely driven by the "Quad" (The USA, the European Union, Canada and Japan). Developing countries' involvement was marginal. The agenda resulting from these negotiations, not surprisingly, was dominated by the demands of Trans-National Corporations (TNCs) based in the advanced industrialised countries as well as influenced by the pressures of "sensitive" sectors in the developed world.

The UNDP (1997) and UNCTAD (1999), among others, have sketched out some of the consequences of this. While advanced industrialised countries underwent measured and strategic trade liberalisation from a position of strength, many developing countries were persuaded or

cajoled into making "big bang" liberalisation from a position of weakness.

Low average tariff levels in developed countries concealed high levels of continued protectionism in industries and sectors where developing countries are currently, or potentially, competitive. Tariff "peaks" and "escalations" in product lines of actual or potential export interest to developing countries, the payment of export subsidies and the use of anti-dumping and sanitary and phyto-sanitary measures as forms of "contingent protection" were just some of the devices deployed in this regard. The result has been that while powerful forces in developed countries and TNCs have clearly benefited disproportionately from globalisation, many in the developing world have been marginalised or compelled to bear disproportionate adjustment costs. As the UNDP (1997) pointed out:

- ▶ projected overall gains in global income from the Uruguay Round of \$212 - 510 billion "obscure a more complex balance sheet of winners and losers" - with losers concentrated in developing countries;
- ▶ significant tariff and non-tariff barriers remain in industrialised country markets in sectors where developing countries have comparative advantages particularly in agriculture and textiles;
- ▶ agricultural subsidies render the playing field in agricultural trade far from level. *"In 1995 industrial countries spent \$82 billion on [agricultural] subsidies ... [with the result that] in the real world ... survival in agricultural markets depends less on comparative advantage than on comparative access to subsidies ... and liberalisation [becomes] not a means for improving efficiency, but a recipe for the destruction of livelihoods on a massive scale"* (UNDP, p 86).

According to UNCTAD (1999, p ix),

"There is strong evidence that in many product markets that are protected in the North, producers in developing countries have a competitive advantage or are able to acquire one ... It is estimated that an extra \$700 billion in annual export earnings could be achieved in a relatively short time in a number of low- technology and resource-based industries. Agricultural exports could add considerably to the figure. All in all, the increase in annual foreign exchange earnings could be at least four times the annual private foreign capital inflow in the 1990s"

Globalisation has, accordingly, been thus far associated with growing inequalities both within and between countries. Ten years ago the world had 147 US dollar billionaires; five years ago there were 274; today there

are 447. These 447 billionaires have a combined wealth greater than the annual income of half the world's population. Fifty-one of the 100 largest economies in the world are now TNCs rather than countries (Tony Benn, British Parliament, 1999).

At the other end of the spectrum, the level of real per capita income in developing countries is today lower than it was 30 years ago. A recent World Economic Outlook reports that overall the number of "very poor" has remained unchanged over the past decade and that between 1,2 and 1,3 billion people in the world live on less than US\$ 1 per day.

The World Trade Organisation (WTO) negotiations

The growing inequalities associated with globalisation formed the background against which battles taking place on two very direct fronts, often unconnected and contradictory, came to a head during the WTO Ministerial Summit in Seattle in December 1999. First, on the streets, there were a number of largely US-based constituencies and international NGOs expressing varying degrees of opposition to the process of multi-lateral trade liberalisation per se. While this included some NGOs and others with sensitivity to the situation in developing countries, many US-based groups targeted the defence of protectionism in developed countries charging that trans-national capital was benefiting from the process of globalisation at the expense of jobs in US "grandfather" industries, the environment etc.

But there was also, secondly, a battle inside the summit that ultimately was more significant in determining that the Seattle meeting ended inconclusively. Official delegations from developing countries, while still structurally disempowered by the processes within the WTO, came to Seattle more organised and more determined than they had been during the Uruguay Round. The major issues confronting the global trading system were also much more clearly identified than they had been at the time of the Uruguay Round as contributing to the widening inequalities between developed and developing countries. The gap between the rhetoric preaching the virtues of trade liberalisation to developing countries and the practice of protectionism by developed countries had also become increasingly stark.

In this context, the Seattle Summit heard calls from developing countries for an agenda that would focus on addressing the inequalities and inequities of globalisation, without necessarily rejecting the process per se. Specific demands varied between different groups of developing

countries. Those least developed and least involved in global trade tended to focus on slowing down the pace of demands to "open up" their own domestic economies, through strengthening measures to provide "special and differential treatment" for least developed countries, non-reciprocal duty free access for their products etc. Other "middle income" developing countries, with some trade profile, (including South Africa) focused on demands to improve their access to developed country markets such as the elimination, or at least substantial reduction, by developed countries of export subsidies and contingent protection in agricultural trade as well as of tariff peaks and escalations and contingent protection in low-technology and resource-based products of potential export interest to developing countries.

But, there was also resistance. Developed countries and regional blocs came to Seattle still defensive of protectionist measures for their agricultural sectors and low technology "grandfather" sectors. They proposed instead of a focus on tariff peaks and escalations, another general round of across the board tariff cuts. An attempt to shift the focus onto "new issues" such as trade and the environment, an investment agreement competition policy and transparency in government procurement was also evident.

The battle inside the Seattle Summit was over the extent to which the Ministerial Declaration to guide negotiations over several years would focus on the developmental issues of concern to developing countries. The outcome of the Seattle Summit was inconclusive. The meeting adjourned without a declaration amidst many complaints about process. The African ministers, for example, issued a statement complaining that there was *"no transparency in the proceedings"* and that *"African countries are being marginalised"* (African Trade Ministers' Statement, Seattle 2/12/1999). But underlying this remain the issues of substance. The draft text that was being fine-tuned in a "green room" when the Seattle Summit adjourned was somewhat ambiguous on several key issues. For example the section on agriculture spoke of *"substantial progressive reductions in agricultural support and protection over an agreed period of time"*, while that on market access spoke of aiming at *"..the broadest possible liberalisation through the substantial reduction of the general level of tariffs, as well as the reduction and, where possible, elimination of peak tariffs and tariff escalation, and non-tariff measures that undermine or distort the benefits of negotiated tariff liberalisation"* (WTO Draft Text, December 2 1999). Substantial resistance to proposals to strengthen the formulation on

agricultural trade, and to including any reference at all to tariff peaks and escalations in products of export interest to developing countries let alone identifying these as the main focus on non-agricultural tariff negotiations, was being encountered at the time the meeting adjourned.

Much has been going on behind the scenes since Seattle. While at the formal negotiations on agriculture and trade in services are underway in Geneva, these are making little headway as many powerful blocs and groups within the WTO are clearly more interested in preparing for a comprehensive new round. The language of institutional reform to better accommodate developing countries, that was being heard at the closure of the Seattle summit, is also now much more muted and appears largely to focus on various "training" programmes for delegations from developing countries.

The entry of China into the WTO is clearly seen by many developing countries as potentially shifting the balance of forces more in their favour. The degree to which the time bought by the collapse of the Seattle summit is being productively used by developing countries needs to be carefully assessed. A greater pro-active effort to formulate demands both on issues of institutional reform within the WTO and on the substance of future negotiations is clearly necessary.

How progressive political formations and social movements from developing countries engage with, and challenge, major institutions of global governance - and influence an emerging, largely disparate and highly volatile, global mass movement - is also becoming a major challenge to political organisations that have largely thus far confined their operations to the national political arena.

BRIEFINGS

Banks and SMMEs

By Langa Zita, ANC MP

The banking system is the conduit for all economic activities in market economies. Nothing happens unless it is financed. The operation and the power modalities of the banking sector are therefore matters that ought to and should, arrest the attention of all of us.

Thousands of Black entrepreneurs find themselves excluded from the normal access of credit, purely on the basis of their colour. This racism and discrimination was never supposed to occur in the first place. That it continues to exist six years into our democracy is a shame. Such a shame renders shallow the project of democratic change that we have been involved in.

Those who are powerful in this sector claimed during recent Parliamentary hearings that they were equally concerned about their inability to extend the credit to the micro and small business sector. They claimed that their incapacity to facilitate these entrepreneurial energies was because this sector was un-bankable. They either did not have collateral, or what amounts to the same thing, had a high-risk profile. They acknowledged that the historical experience of apartheid may have disposed many of their staff to be prejudiced against Black entrepreneurs, but they said they were working on it. Therefore, they concluded much as their hearts were now in the right place, they had to balance between "their involvement in economic transformation and the maintenance of a sound financial sector".

It would be wrong to ignore these views. But to accept them would amount to an abandonment of the fundamental challenge to improve the quality of life of millions of our people through effective participation in the mainstream of our economy. Should we accept the notion that sound economics is essentially contrary to developmental goals? Where is the evidence for this or are we just generalising the specific developmental path of our former colonizers-Britain? Why should we see the world through the eyes of our former colonisers?

Indeed there are some who would claim that the Parliamentary public hearings were a farce. They argue that the financial markets like all markets in a capitalist economy, operate through the mechanism of supply and demand. If there are racial prejudices in the banks, it is a matter of time

before the market corrects this distortion and all will soon be well. That it is now six years into our democracy, and that these distortions persist, does not bother them. They advise us that we should not interfere with the market, as any form of law will bring many distortions, which will undermine one of the most efficient banking systems in the African continent. These modern day Rip van Winkels, should be advised to continue with their sleep, as it is clear that they have not studied the economics of development of the past 130 years.

Is what we are dealing with a problem for SMMEs, or are the problems an expression of the fundamental problem with the banking system in our country? Is the present banking system appropriate to the developmental and accumulation challenges and needs of the country?

In dealing with matters of the allocation of capital for investments, we need to look at the balance between bank based and stock exchange systems of raising capital; incentivised and enforced savings; assistance to SMME's, fostering of the cooperative sector and so on. Should we be satisfied with merely "modern sophisticated economy and infrastructure that the white man bequeathed us" or should we search for bold and creative solutions?

We should not be so *"awed by capitalism that we throw the National Liberation Movement prostrate in front of this system as if in pagan prayer"*, to paraphrase from one seminal document of the tripartite alliance.

There is now increasing scholarly evidence that there are major differences in outcomes between economies whose banking structures are capital based as in the US and in the UK, and those that are bank based, as in Germany, France, South Korea and Japan. The capital based system emphasises the exit principle in their dealing. Once there is a problem, shareholders simply take their money- they exit. In this model there is no close relationship between finance and industry. The bank-based system maximises the voice mechanism, which encourages involvement and responsibility as against running away when there are problems. Because the bank itself is not an uninterested lender it uses this presence to strengthen the viability and stability of the enterprise.

Furthermore, development practice in the developing world shows that the poor are bankable as long as due attention has been paid to institu-

tions. The Grameen Bank of Bangladesh, a bank for the poor, which was a venture of the state, the private banks and civil society, is clear demonstration that every one, even those who do not have collateral are bankable. Starting off with 15 000 clients in 1980, it had 2.34 million clients by 1998 and 2.24 million of them were women. This bank, which only banks with the poorest of the poor, has a 98% repayment rate, and the women repay 95% of their loans. The majority of those who participate are now living above the poverty datum line. Of course the Grameen Bank is not the most profitable bank in Bangladesh, it just breaks even and is presently trying to improve its self-sufficiency. What is most interesting is that most of these people are not necessarily entrepreneurs, but working people trying to eke out a living. They are not experienced business people who are trying to improve their business operations, as is the case with black entrepreneurs in our country.

If ordinary people can, with the correct institutional mechanisms, be bankable, how many economic and social returns can we achieve with actual entrepreneurs. In our country, the present banking system is frustrating those who have the disposition to be entrepreneurs, those who already are in business. We should put an end to this.

BRIEFINGS

GLOBALISATION CONFERENCE IN NEW YORK

An extraordinary conference on Globalisation was held in New York from 4 - 10 September 2000. Attended by 2000 participants from all over the world, it ran in parallel with the United Nations Millenium Summit which brought together 146 Heads of State, the largest number ever.

But the globalisation conference was quite different. Although it was addressed by Gorbachev, Soros, the President of Indonesia, New Zealand, Finland, Nigeria, among others, and heads of state from many other countries, on this occasion they were in dialogue with former Prime Ministers, heads of international organizations such as the World Bank, academics, senior business leaders and most numerous of all, representatives of civil society from the world over.

The conference was convened by the State of the World Forum whose slogan is "A World that Works for Everyone" and part of an annual series which brings large numbers of representatives together to discuss global problems and possible solutions, though there is no machinery for implementation. The ethos of the meetings are that dialogue for a global consensus may lead to reconciliation, peace and global unity, failing which the world faces disaster in a divided world. Gorbachev argued strongly for the creation of a Global Citizens Council to work for a democratic world system, which would be stable, just and humane, with a strong civil society. He urged governments to invest in social services in health, education and culture, which cannot be provided by the market. He said that the extreme economic liberalisation implemented by Russia had not worked for the social sector. Curiously, his views were endorsed by George Soros who argued that vital as markets are, they cannot be expected to place human beings at the centre of concern.

The overwhelming view was that globalisation is unstoppable. But it is now manifested in many different areas each of which have to be analysed separately. A representative of American labour said that the world is now a kind of Wild West with rampant speculative capital creating havoc with people's security. This was why Seattle was so

stormy. Seattle was referred to by many speakers with some predicting that Prague would be even more confrontational. Clearly, the capacity of NGO's to mobilise has made a powerful impact on governments, the Bretton Woods institutions and international business as almost all referred to the need for new modes of relating to civil society.

A senior official of the World Bank admitted that some international institutions are not working well and that a worldwide movement to fight poverty is needed. He also accepted that the views of developing countries should be taken more seriously at the WTO and that access for developing countries agricultural products had to be ensured. Another speaker reported that there had been a serious rupture between the developed and developing countries at the formal conference at Seattle and that a change in power relations is needed.

A great deal of attention was given to global finance which was called a casino. It seems that about \$2 trillion flows globally in daily foreign exchange transactions, with 90% of this being speculative capital and volatile. One important factor is the high rewards given to traders in finance which provides a huge incentive for speedy transactions. This also encourages herd behaviour as no one wants to be left behind in case some investments fail. There is immense concentration of capital with 70% of equity activity based in the US and UK. Mutual funds in the US amount to \$7 trillion and much of this is traded on US stock markets daily.

Many speakers agreed that the world financial system must be regulated. Rules are needed to prevent crises and cure them if they come. This means setting norms and standards for the private sector, in particular in the regulation of derivatives. Failure to do so could lead to a meltdown even in China and Japan. But who is to introduce and manage regulation is unclear. Some believe that the Fund and the Bank are unable to do so and that a new financial architecture will emerge from the concerns of international corporations since they are buffeted by these uncertainties.

The head of a Latin American financial institution accepted that there are many problems with globalisation. There are severe unfair trading practices with only a few countries having access to international markets. \$90 billion entered Latin America causing a contagion effect. He argued that experience showed that solid macroeconomic and fiscal positions were important, as is the need to regulate imprudent banks. Despite some advances in this respect, Latin America is not yet prepared for a future

crisis. Any new financial architecture has to include provisions for social justice and the participation of civil society.

The case for sound economic practices in the developing countries was not disputed. But a former Prime Minister of the Netherlands argued that good domestic governance is not enough to avoid crisis. He insisted that some countries with sound fiscal management had nevertheless experienced crises. We also need good international governance. An investment banker said that a vital element is that we must stop the speculation against currencies on Wall Street since this seriously undermines the currencies of developing countries. Much of this speculation is done with huge US pension funds.

The proposition that developing countries must observe sound macroeconomic policies as a priority was qualified by a representative of a large international consulting firm. One of their representatives reported on a study of nine countries which had experienced serious crisis. They found that although the crisis manifested itself in the financial sector, the real culprits were the corporations operating in the real economy. These corporations were not sufficiently competitive in world terms, perhaps because of protectionism, and became dependent on bank credits which then built up an imprudent profile. Then doubts arose among investors which triggered a crisis in the financial system. But the original problem arose in the real economy. The consultant's conclusion was that the corporations ought to have been exposed to competition earlier even if that led to some failures.

The apportionment of blame on developing countries was met with considerable resentment by some participants. They argued that the Washington Consensus (structural adjustment programmes) had not achieved anything worthwhile in Latin America or Africa where it was imposed during the 1970's and 1980's, whereas in the 1950's and 1960's living standards had improved significantly. Presently new social problems such as Aids, crime and youth alienation were becoming pronounced.

A major theme of the conference was the race in Information and Communication Technology, (ICT) . Experts in the field reported that huge advances were being made with an imminent explosion in bandwidth which would bring a profound change in all areas of society. The social effects are immense. One problem is that while the economic factors are measured the social aspects are not. The impact on the ecosystem can also be serious. Questions were raised about escalating consumption

worldwide without any real assessment of the capacity of the world's resources to support it. How far can demand for goods and services go without endangering the whole ecosystem?

These are but a few of the issues raised in many plenaries and several hundred working groups. The conference was inspired by speeches by Jane Goodall on her work in the animal kingdom in Africa and Muhammad Yunus in providing loans to poor women in Bangladesh. There were many such outstanding personalities though there were also many bores and frivolous "groupies".

The ultimate impact of the conference is hard to assess. The willingness of so many heads of state, business leaders and establishment figures to join in a critique of globalisation and an insistence that we need "A World that Works for Everyone" is a sign that the concerns for social justice are not confined to the NGO's alone. It is hoped that the G7 would pay more attention to these voices which seem to grow stronger as the intransigence of the big economic powers become more entrenched.

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