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The politics of social protection in South Africa: reflections on establishing a welfare state

Summary

The purpose of this article is to reflect on the advances made in the direction of a welfare state in South Africa, and the possibility of its establishment. In order to reflect on the question whether South Africa's political economy is moving towards a welfare state, certain arguments are advanced. First, a brief comment on South Africa's political economy is offered. Secondly, some key theories and actors that could influence the South African political economy's movement towards a welfare state are identified. Thirdly, the author reflects on the question of whether such a movement is taking place as well as the likelihood of a welfare state's developing in South Africa.

Die politiek van maatskaplike beskerming in Suid-Afrika: besinning oor die totstandkoming van 'n welsynstaat

Die doel van hierdie artikel is om te besin oor die vordering wat gemaak word met sowel as die moontlikheid om 'n welsynstaat in Suid-Afrika te bewerkstellig. Ten einde oor die vraagstuk te besin of Suid-Afrika se politieke ekonomie in die rigting van 'n welsynstaat vorder, word die volgende argumente aangevoer. Ten eerste lewer die skrywer kortliks kommentaar oor Suid-Afrika se politieke ekonomie. Tweedens word 'n aantal teorieë en akteurs geïdentifiseer wat Suid-Afrika se ontwikkeling tot 'n welsynstaat kan beïnvloed. Derdens word besin oor die vraag of 'n beweging na 'n welsynstaat inderdaad plaasvind, sowel as oor die moontlikheid of 'n welsynstaat in Suid-Afrika gevestig kan word.

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The purpose of this article is to reflect on the advances made in the direction of a welfare state in South Africa and the possibility of its establishment. The emphasis is on reflection, contemplation and debate. It is not merely an empirical checklist — whether there is a list of indicators of a welfare state and whether South Africa meets or does not meet the criteria. It is time that South African intellectuals started this debate, instead of merely swallowing hook, line and sinker the liberal orthodoxy that the welfare state is on its way out and that the minimal state is "in". This article is an effort to stimulate debate on the matter and is therefore in the final analysis not specifically prescriptive on the question of whether the South African economy should be managed towards a welfare state of some kind. Rather it reflects on the question of whether social forces and structural circumstances will usher in a welfare state in the course of the development of the South African political economy.

In contemplating this problem, let me first summarise what is meant by the term "welfare state". The underlying normative commitment of a welfare state is to improve the quality of life of the population by promoting economic (or material) equality through the redistributive power of the democratic state. Unregulated, freewheeling economic competition is condemned as unacceptable, since it encourages greed, avarice and social conflict. Free, unfettered competition is seen as inefficient and unproductive. However, the modern welfare state does not dispense with the advantages of the free market altogether. Indeed it tries to establish a symbiotic relationship with the free market, using it to produce the economic surpluses needed to fund the welfare state. Exactly how this is accomplished differs from state to state and from epoch to epoch within the ideology of state welfarism. Immediately after the Second World War in Britain, for instance, the state tried to manage wealth-creating enterprises by nationalising private industry. This failed and Thatcher's Conservative Party privatised many of these state enterprises. In France, the state is still much involved in managing and owning production capacity. The general tendency in the twenty-first century welfare state is, however, to leave business to business and let the state redistribute resources by using its political power to intervene in the economy.[1]

The virtue of the welfare state, in this defence, is that it removes the distribution of wealth from the vagaries of the market in order to ensure that all citizens have a stake in society and that each individual has an incentive to contribute to the common weal. This conception of the welfare state subscribes to the principles of formal equality before the law and equality of opportunity for every citizen or member of society. Moreover, in the welfare state some measure of equality of outcome is encouraged, which means that the state intervenes in the economy through its monopoly on political power in order to ensure and, if necessary, enforce an equitable distribution of income, wealth and other social goods. The apologists for the welfare state defend the redistribution of wealth on the grounds that it promotes justice and social community (solidarity).[2]

1. The social consensus that underpins a welfare state

The modern welfare state as it exists in much of Western Europe is based on a social consensus that has developed over the last century or so. In my view the social consensus on the idea of the welfare state comprises the following elements. In the first place social welfare transfer payments (often called "welfare entitlements") are seen as a social right of citizenship, a form of civil contract between the vari-

1 This description has been gleaned from the vast literature on the welfare state. For a good overview see Erikson 1993 and De Jasay 1985, chpt 4, as well as Esping-Anderson 1996; Scarborough 2000; Marsland 1996 & 2001; Palme 2001.

2 A reviewer of this article requested some evidence regarding what is termed the "roll back" of the welfare state in Europe. This is a popular stereotype of neo-liberally orientated financial journalists. A proper analysis of the welfare state in Europe demonstrates that it is alive and well, going through normal adjustments. But the salient and underlying assumptions of the welfare state in Europe are intact. In fact it would be political suicide for any party in Western Europe to "significantly roll back" the welfare state. See for instance Scarborough 2000; Abrahamson 2001; Peterson 2001 as well as Marsland 1996 & 2001 for persuasive arguments and statistics regarding this question. Marsland is a vehement critic of the welfare state and finds much evidence, to his disapprobation, that the welfare state is alive and well in Western Europe and Britain.

ous social classes in society. Secondly, the welfare state's mode of being requires that the contributors of resources show generosity towards their less fortunate fellow citizens. By the same token, the less fortunate should show modesty and restraint in collecting benefits, since both groups acknowledge the reversibility of roles over time (Petersen 2001: 3).

Furthermore, the individual is conceptualised as a victim of external circumstances beyond his/her control: war, famine, redundancy, disease, inflation, economic recession, foreign economic competition and similar incidents and conditions leading to human insecurity. The welfare state tries to compensate for most of the disadvantages and inconveniences inflicted on the individual by life. In other words, the welfare state acts as insurance against the insecurities and neuroses of life. The European welfare state ideal typically assumes that people live their entire life in the country of their birth and that their mutual solidarity is nationally delimited.[3] People managing well will be willing to finance welfare benefits, since they may themselves one day find themselves under similar social stress: old age, unemployment, disease, or disability (Peterson 2001: 2).

Some welfare states such as Germany (the Bismarckean model) and Britain (the Beveridgean model)[4] rely on the principle that social insurance and benefits are related to previous employment and contributions. In essence this is a reciprocity system and presupposes a *quid pro quo* relation. The Scandinavian model relies heavily on tax transfer mechanisms and is in essence an idea of role reversibility. Role reversibility means that one imagines what help one would appreciate in the other's place. Almost Biblically, it relies on the idea that one is one's fellow's keeper (Petersen 2001: 4).

The social consensus on which the (West) European welfare state has been constructed claims the following successes:

3 In real-life situations in Europe, this assumption can no longer be defended, since immigration into the European economies is needed to augment an aging workforce. Cf Peterson 2001: 3.

4 See Marsland 1996 for a discussion of the Bismarckean and Beveridgean models of social security.

- reduction and alleviation of poverty
- weakening of social exclusion and polarisation
- developing equitable income distribution
- smoothing the income stream in an individual's life
- providing individual security
- weakening social tensions, and
- increasing the supply of social services not provided by either the market or charity (Peterson 2001: 6; Kuhnle 2000: 234).

These are significant benefits and many societies in the third world are striving towards something similar. The emigration of people from the so-called third world into the European welfare states is partly explained by the generous benefits that these states supply.

2. South Africa on its way to a welfare state?

I shall reflect on the question of whether South Africa's political economy is being managed in the direction of a welfare state under three headings. First, a brief comment on its political economy will be offered. Secondly, some key theories and actors that could influence the South African political economy's move towards a welfare state will be identified. Thirdly, the question of whether such a movement is taking place, as well as the likelihood of a welfare state's developing in South Africa over time, will be addressed.

3. Observations on South Africa's political economy

South Africa's current economic problems — mainly deep inequalities in income, poverty and a lack of international competitiveness — go back to the mid-nineteenth century. The discovery of gold and diamonds on the highveld of South Africa spearheaded its transformation from a backward agrarian economy to a mining and industrial economy by the middle of the twentieth century. The country's industrial development was initially focused on mining with little job creation elsewhere.[5] The manpower needs of the mines caused economic deve-

5 For an analysis of South Africa's early history of industrialisation, see Lipton 1987.

lopment in the rural areas to stagnate. The mining-industrial economy came to be dominated by a few huge mining-financial conglomerates, with an in-built oligopolism. With the absence of real competition as well as the elimination of African peasants, little other economic development took place in African rural areas.

The political economy of apartheid led to a huge racially based wage gap. The industrial base was built behind tariff walls and import substitution. Due to its international political and economic isolation, South Africa was forced to maintain a macro-economic policy of import substitution during the seventies and the eighties when Latin America and South-East Asia started on the road to export-based industrialisation. Moreover, the ideological costs of apartheid, such as resettling workers far from the industrial cities and the policy of state-aided industrial decentralisation, which made no economic sense, led to an inefficient economy (cf RSA, Dept of Social Services 1999: 21; Lipton 1987: 227-30).

The political economy has created deep inequalities in terms of the distribution of wealth. These were perpetuated into participation in the economy: whites had open access to economic opportunities; blacks were restricted. Numerous laws, rules, regulations and practices benefited the white population. Businesses and industries were established in mainly "white" areas; job reservation was legislated by statute by the various National Party governments, starting with the Hertzog government in 1924 and ending, in reality, with the De Klerk government in 1994 (Cf Lipton 1987: 14-21; McCarthy 1990: 53; Schoeman 2001: 324).

These practices, linked to South Africa's international economic position, resulted in a duality in its economy:

- On the one hand the country developed a political economy in which the distribution of wealth was (and largely still is) skewed in favour of the white minority. This means that the economy is divided along racial lines with its wealth primarily benefiting the white population. The richest 10% of the country's population earns 50% of the national income; the poorest 20% only 1.5%. 85% of the poor are black. The country's Gini coefficient is calculated at 0.68, which reflects this inequality (Schoeman 2001: 326).

- The second duality within the economy is one typical of a developing country: the rural/urban divide. Economic activities are largely restricted to urban areas, with areas or "islands" of economic development concentrated in the Gauteng province, the Durban-Pietermaritzburg area of KwaZulu Natal, the Port Elizabeth-Uitenhage area of the Eastern Cape and the Cape Town-Bellville complex in the Western Cape. This means that poverty and deprivation are rife in rural areas and that urbanisation, as in many other parts of Africa, grows at a rate which makes it difficult to plan urban development properly (Schoeman 2001: 325).

South Africa has a high unemployment rate. Formal unemployment/underemployment ranges between 26% and 35% (as at September 2001).[6] Of the formally unemployed, approximately 50% are engaged in the informal sector. These are quite often marginal economic activities, like hawking, which do not necessarily eliminate material poverty. Some commentators claim that South Africa's unemployment ratio is the highest recorded for a middle-income economy (Nattrass 1998: 4; SA Reserve Bank 2001 Annual Economic Report: 12).

Moreover the dependency ratio — the proportion of the youth (under age 15) to economically active adults (ages 15 to 64) — places a heavy burden on the economy. Half the population is under 24, with those under four comprising the largest age group. High unemployment, together with a high youth dependency ratio, creates a low revenue base for government. Consequently government has smaller material resources at its disposal to create or encourage the creation of employment and to provide social security nets for the poor. Taxation levels are disproportionally high in South Africa, creating an onerous tithe on the wealthier, but relatively small middle class in the country. High taxation, low labour productivity and government dissaving through deficit financing of its budget result in low domestic savings and investment and therefore low capital accumulation. This makes South Africa highly dependent on foreign investment and loans for economic development. It increases the country's

6 The figures differ according to which method of calculation is used. The Labour Force Survey calculated unemployment as 35.9% in September 2001, while the *Survey of Employment and Earning* calculated it to be 25.8%. Cf SA Reserve Bank 2001 Annual Economic Report: 12.

vulnerability to international capital flows and financial crises (Schoeman 2001: 325, 326).

The major failure of economic policy after the establishment of the Union of South Africa in 1910 was that the fairly rapid economic growth of the first seventy years of the Union's history was never transformed into an economic development embracing the majority of the population. Economic development means that the whole population, or at least majority of the population experiences sustained improvement in its standard of living. Economic growth merely points to an increase in average wealth but does not mean that its distribution benefits the population as a whole. South Africa experienced economic growth, but not economic development — the majority of its population remained poor, while the distribution of new wealth was limited to the white population. Furthermore, as was the case with most African economies in this era, growth was highly dependent on earnings from the export of minerals and other commodities (Schoeman 2001: 327).

These developments — and, of course, in a different sense, this lack of development — have left the South African political economy, in the year 2001 with, among others, the following features:

- Ownership of land is still largely in the hands of a white minority (eg 1.0% of the white community, mainly farmers, who comprise 0.125% of the total population, own 85% of agricultural land).
- There is an oligopolistic corporate business sector dominated by ten large corporations.
- Whites in general still enjoy levels of health, education, social services and general living standards far superior to those of the majority of the black population.
- The growth of a black middle-class in the last five years was largely facilitated by the change in the political power base. Employment creation occurred within the public sector rather than the private sector. Class differences within the black community now emulate those between black and white in South Africa. Political transformation has led to the rapid economic empowerment of a new black elite by the state. The instant enrichment of certain black interests in the last seven years has been breathtaking.

- The country is increasingly subject to problems relating to region-wide endemic poverty and deprivation, such as illegal immigration, crime, and the smuggling of drugs and small arms.
- The neglect of human development, particularly in the field of formal education, makes for a shortage of skilled labour and of the managerial skills necessary if the economy's productivity and competitiveness is to develop despite growing unemployment.
- Despite high levels of unemployment, the cost of labour in South Africa is high and the productivity of all factors of production (not only labour) is low. Hence international competitiveness is curtailed (Schoeman 2001: 325, 326).

The following key economic indicators are pertinent to the above analysis:[7]

- In the last decade the GDP has increased by an average of 2% *per annum*, while public expenditure has increased by 3.5% *per annum* in real terms. Even the "good years" of 1999 and 2000 produced growth rates of only 2% and 3%, respectively, while 2.5% was expected for 2001(SA Reserve Bank 2001: 1, 2).
- Over the past five years gross domestic savings as a percentage of GDP have declined from 19% to 16% of GDP.
- The deficit in the current account of the balance of payments has been an average of $1.3 billion per year (3-4% of GDP, but declining) for the last five years. The low savings rate as well as the deficit on the current account clearly makes South Africa reliant on uncertain foreign capital flows.
- Employment has been declining at 1.6% *per annum* for the last decade.
- Inflation has declined from a rate of 13.6% in 1989-1993 to 7.5% in 1994-2001, but this is still almost three times higher than that of the country's major trading partners. This leads to a steady depreciation in the rand.

7 This information has been gleaned from the CDE Report (1999) as well as checked against the latest (September 2001) Annual Report of the SA Reserve Bank. Where necessary specific page numbers and/or references have been indicated. The full report is available on the website <www.resbank.co.za/economics/annual2001/domes.html>

- The average budget deficit of the state increased from 4.3% in 1989-1993 to 5.7% over the next five years. However, this has now been brought down to less than 2.5% in the 2000/2001 fiscal year.
- High domestic consumption, high increases in salaries and wages and a continuing state budget deficit have led to the imposition of restrictive monetary policies by the SA Reserve Bank. The prime overdraft rate for the last decade averaged 19%, but declining steeply in the period September 1999 to September 2001, when it was only 13% (SA Reserve Bank Quarterly Report, September 2001: 2);
- However, much of the strict monetarist policy of the ANC government over the last five years has strengthened the state's financial position and South Africa's macro-economy is in much better shape than seven years ago when the ANC came to power (cf CDE Report 1999: 97, 98, 100, as well as SA Reserve Bank 2001 Annual Economic Report:1).

4. The macro-economic policy of the ANC government

When the present ANC-led government took power in 1994, the South African economy had become stagnant and uncompetitive. It needed to be completely overhauled and made more racially equitable and inclusive, but also more internationally competitive. Basic social services had to be extended to African people; human capital development fostered; subsidies to commercial farmers, mines and industry had to be scrapped, and at the same time state expenditure had to be reduced in real terms. Inflation also had to be reduced. For political reasons, the ANC government did not choose the South-East Asian route of a low wage, full employment economy. Investment in human capital and strengthening the skills of the work force to make it more globally competitive, is the basis of the ANC-government's economic policy (RSA, Dept of Social Services 1999: 20).

The government's current macro-economic policy is known by the acronym GEAR (Growth, Employment and Redistribution). GEAR is a strategy aimed at rebuilding and restructuring the economy. It creates a context to "successfully confront the related challenges of meeting basic needs, developing human resources, increasing participation in the democratic institutions of civil society and implementing the RDP (Reconstruction and Development Programme) in all its facets" (RSA, Dept of Finance 1996: 2).

GEAR's aim is to "catapult" South Africa into a "new burst of economic activity" with higher levels of growth, development and employment and a "significantly improved distribution of income and opportunities". The higher growth path depends on attracting foreign direct investment, encouraging higher domestic saving and achieving a strong export performance. The strategy also involves greater industrial competitiveness, a tighter fiscal stance, the moderation of wage increases, accelerated public investment, efficient service delivery and a major expansion of private investment (RSA, Dept of Finance 1996: 3; RSA 1999: 288).

The state's macro-economic policy can thus be described as neoliberal, but including some socialist components, such as the redistribution of income and the construction of homes for the poor. The policy is guided by the following key elements:

- creating a competitive, fast-growing economy
- redistributing income to the poor and disadvantaged
- achieving sustainable economic growth and job creation
- improving policing and streamlining the criminal justice system
- building homes for the poor and improving municipal infrastructure and living conditions, as well as
- targeting poverty relief (cf RSA 1999: 307).

The national budget prioritises spending on education, health and welfare. Policies have been put in place to fund productivity skills training, but this is funded off-budget by a training levy on enterprises (SA Reserve Bank September 2001: 16). The 2001/2002 national estimates of expenditure reveal the servicing of public debt to be a major weakness in the state's budget. In 2001/2002 it consumed R48 billion, ie 18.6% of the total budget, or 5.5% of the GDP.[8]

8 Progress has been made in bringing down the relative size of the public debt; however, it still consumes significant resources which could have been used elsewhere.

If this figure is compared with the expenditure for education in the same budget, which is R58 billion, the type of restriction placed on social spending by servicing the public debt is clear. The public debt ratio as a proportion of GDP is not inordinately high at 55% of GDP. Moreover, the state is dissaving at present, and has been doing so for the last decade. The 2001/2002 budget deficit is 2.5% of GDP, down from 9% in 1994, while the consolidated national expenditure (the state budget) consumes 27.1% of GDP. Therefore the public debt as a percentage of GDP has been declining during the last five years and is a considerable improvement on its predecessor (Manuel 2001: 7, 8).

Likewise, the state's dissaving has been improving steadily. In 2001 it was 0.25% of GDP, compared to 4.4% in 1994. The target is to eliminate state dissaving in the medium-term. However, the cumulative effect of state dissaving in the last decade has been continued high interest rates in the country. At the time of writing, the prime overdraft rate was 13%, inflation was 6.5%, yielding a high real interest rate of 7.5% (SA Reserve Bank September 2001, Manuel 2001: 8).

4.1 Spending on social welfare

The state's budget is quite strongly restricted in terms of what can be done to improve the standard of living of the poorer members of South African society. Moreover, 58% of the 2001 national budget was spent on social services — education, health, and welfare. The largest single redistributive programme of the government is the system of social grants to the elderly, disability and child support grants, which provide support to 3 million South Africans (7.5% of the population every month). However, the income tax burden is shared by a relatively small section of the population. Only about 12% of South Africa's economically active population pays income tax. The wealthiest members of society are taxed at a marginal rate of 42% on an income of R200 000 *per annum*, which is high by industrialised world standards (CDE 1999: 90; Manuel 2001: 19, Gouws 2001: 3).[9]

9 However, the SA Revenue Service has been quite effective in bringing more taxpayers into the tax net. In 1999, for instance, it brought in 50 000 citizens (CDE 1999: 90.) See also the Budget speech of the Minister of Finance (Manuel

However, within the limitations pointed out above, the ANC government has clearly embarked on a redistributive social spending policy. It is redistributing resources from rich to poor and from white to black. The following tables[10] indicate how the ANC government has changed social spending priorities between 1993 and 1997, the social spending gap between rich and poor, and the gap between white and black (cf Manuel 2001: 3).

Table 1a: Increases in social expenditure per capita: 1993/1997. The figures are per quintile, 1=poorest 20% of population, 5=richest 20% of population.

Expenditure R	1	2	3	4	5
1993	1730	1280	1464	1790	1673
1997	2320	1977	1743	1334	1924
Increase per cap in each quintile	34.1%	54.4%	28.0	-2.6%	-20.2%

The six-year trend shows that social expenditure has been redistributed from the wealthiest 20% to the poorest 40% of the population.

The same trend is demonstrated in the percentage share of the expenditure of the five quintiles.

Table 1b: Percentage share of expenditure

Quintiles	1	2	3	4	5
Share % 1993	27.4%	21.9%	20.5%	17.6%	12.7%
Share % 1997	30.7%	25.8%	20.1%	14.7%	8.7%

The redistributive tendency is clear: the wealthiest 40% saw their share in social expenditure decline from 30.3% of the total to 23.4%, while the poorest 40% saw an increase in their share of social expenditure from 49.3% to 56.5%.

2001: 21), in which he indicated that the SARS had considerably improved its tax collection capacity.

10 Source: Dept of Finance, Budget Review, 2000 <www:SARS.gov.za/budget_2000/review:6>.

Table 1c: Social spending per racial group *per capita* 1993/1997

Year	Black	Brown	Indian	White	Total
1993	R1439	R2014	R2529	R1732	R1555
1997	R2012	R1812	R2000	R1435	R1924

The expenditure *per capita* on blacks increased substantially in the six-year period, ie by 39.9%.

Table 1d: Percentage share in spending per racial group

Year	Black	Brown	Indian	White	Total
1993	70.1%	11.2%	4.2%	14.5%	100%
1997	80.2%	8.2%	2.6%	9.07%	100%

The trend shows lucidly that white, brown and Indian people saw their share of social expenditure decrease in the six-year period, while blacks received a significant increase.

Table 2: Total government expenditure on welfare services: social services, health, education

Fiscal year	97/98	98/99	99/00	00/01	01/02
Amount R bil	88,6	98	103	129	155
% of Budget	46,6%	47,7%	47,2%	50%	58%
% of GDP	14,6%	15,1%	14,6%	15,3%	16,0%

Sources: RSA 1999: 308; RSA, Dept of Finance 2001: 22

There is a clear upward trend in the relative share of the budget being spent on social services. This is in line with the GEAR policy of the ANC-led government, which sees redistributing wealth to the poor and targeting poverty relief as among its priorities.

5. Some remarks on social policy in South Africa

Since the demise of apartheid and the establishment of a new political order, a radical new paradigm has been introduced in the country's social policy. The intellectual framework of democratic socialism drives the social policy of the ANC-led government, with an emphasis on equality and equity in human relations. The government has enacted a number of new laws since 1994 in order to put its ideological views into practice. Among the most important are:

- the abolition of the death penalty
- laws on gender equality
- affirmative action employment laws
- legalisation of abortion on demand in the first fifteen weeks of pregnancy
- laws which protect the right of collective bargaining in the workplace
- laws which prohibit unfair dismissal
- land reform, including restoration of land rights or payment of reparation to people of colour unfairly deprived of their land after 1913
- the use of the national budget as a redistributive mechanism to benefit the poorer (mostly black) sector of society
- laws to improve the lot of women in traditional African communities in terms of property and inheritance rights, and
- laws protecting the right of individuals to choose their own sexual orientation and to protect such persons against discrimination based on their sexual orientation (RSA 1999: 405, 406).

The government's social welfare policy makes provision for:

- the promotion of self-reliance to empower people to play a meaningful role in society
- the use of auxiliary workers, volunteers, and family-based and community-based models of care, rather than institutionalised care
- state grants to the elderly, indigent children and the disabled
- restorative justice in dealing with children and families in trouble with the law
- a law against domestic violence to strengthen families and to make domestic violence a statutory rather than a common law offence

- the right of biological fathers to participate in deciding whether children born out of wedlock may be given up for adoption
- the appointment of family advocates (lawyers) and councillors at state expense to submit recommendations to court regarding the well-being of children in divorce cases, and
- a project to aid children and youths who run foul of the law, on the principle that children are best cared for by their families (RSA 1999: 406).

Taking this outline of the ANC government's economic and social policies into consideration, one can address the question of the move toward a welfare state in South Africa.

6. What builds a welfare state, and is South Africa on its way to a welfare state?

A number of theories have been advanced to explain the development of the welfare state. Several well-known ones are briefly summarised below and applied to present-day South Africa.

6.1 The industrialism thesis

This theory builds on the fact that the industrialisation of a political economy leads to migration of workers towards cities, where they are exposed to the vagaries of free-market competition (Scarborough 2000: 228, 229). The main socio-economic problem is that market-based industrial economies are not able to solve the phenomenon of economic cycles. Consequently the working class is subject to retrenchment and ill-equipped to face the risks of the market place. Therefore in industrialising societies that are also democratising, pressure builds up for state intervention in the economy to supply some security for the industrial working class by means of social insurance, socialised health and welfare services, and free or nearly free education. Moreover, the welfare state becomes possible in an industrialised economy because sufficient wealth is created to be redistributed to the working class and ensure its material security.

In present-day South Africa, much of this theory applies. The country has been industrialising since the late nineteenth century. Since the mid-1970s African-led labour unions have been lobbying governments vehemently for job security, minimum wages, pensions, social security payments and the right to strike. Retrenchments since 1994, with the restructuring of the economy, have led to the shedding of 500 000 jobs. This has increased pressure by organised labour on the democratic ANC government for more regulated job security as well as state intervention to ensure economic benefits for workers (cf CDE 1999: 57, 85; SA Reserve Bank September 2001: 12-6).

6.2 The "contradictions of capitalism" thesis

According to neo-Marxist theories, welfare states originate in the contradictions of capitalism. Capitalist political economies need to ensure conditions favourable to capital accumulation. Capital needs the state to ensure social peace, and labour needs the state to limit the predations of capital. The state presides over a social contract: it accedes to the demands of labour by establishing social welfare policies funded by economic surpluses generated by the capitalist economy. It keeps the loyalty of capital and ensures a favourable investment climate by keeping the demands of labour in check and ensuring reasonable tax limits on capitalist enterprises (cf Offe 1984).

To placate "capital",[11] the present South African government subscribes to the so-called Washington consensus on economic policy.[12] It is derived from the theories and practices of neo-liberal economics and the general policy prescriptions of the Bretton Woods Institutions, which are situated in Washington. This doctrine holds that the private sector is the primary engine of economic growth. Governments should keep inflation low by applying strict monetarist policies, maintain price stability and shrink state bureaucracy. The state should maintain a balanced or near-balanced budget, keep taxes low, maintain low tariffs on imported goods and promote exports. Moreover, states should remove restrictions on foreign investment, privatise state-owned enter-

11 This term is used here within the context of the "contradictions of capitalism" thesis as summarised.

12 The GEAR Policy of 1996.

prises and utilities, deregulate capital markets, promote a convertible currency and allow free repatriation of capital, interest and dividends to foreign investors. Industries as well as the stock and bond markets should be opened to foreign competition. Lastly, states should strive towards "good governance", eliminate government subsidies and kick-backs to the private sector, and manage state services through public-private partnerships (cf Friedman 1999: 121-8).

As pointed out above, the South African government is quite strongly sympathetic to labour demands for security against the vagaries of the (global) marketplace. For instance the Basic Conditions of Employment Act grants workers maternity and paternity leave, limits hours to 45 a week, gives preference to the regulation of work-place agreements via collective bargaining at the industry level and prohibits child labour. It also protects workers against arbitrary hiring and firing and, in a wide range of industries, minimum wage levels are prescribed. The Employment Equity Act forces employers to implement affirmative action plans which are monitored by the Department of Labour (SA Reserve Bank September 2001: 16). Entrepreneurs regularly complain that the labour system in South Africa is unnecessarily rigid and makes businesses uncompetitive against low-wage Asian economies, while labour still complains about being insufficiently protected against the vagaries of Asian and other low-wage economic competition (cf CDE 1999: 84, 85; RSA 1999: 295, 296).

Since 1994 the government has succeeded in managing the contradictions of capitalism reasonably successfully, but at a price. Ministers have been heckled at the annual congresses of labour unions and many investors are wary of investing in an economy which has "inflexible labour laws".[13] These contradictions regularly require the government defending capitalism to labour unions and labour rights to capitalists (cf CDE 1999: 85-97).

13 The acrimonious exchanges between Minister Fraser-Moleketi and the Public Service Unions in early October 2001 are illustrative of this tension, *Finansies & Tegniek* 4 October 2001: 4.

6.3 The "nation-state building" thesis

This theory supposes that welfare states arise as a result of the strategies whereby capitalist elites integrate workers into the capitalist political economy of the national state. In order to do this the state offers social protection as a rational-legal and impersonal form of state action. Social protection becomes a matter of the rights of the citizen against the state. These rights are acquired through democratic processes and are justiciable. The elites legitimate the political power of the state by incorporating the working classes through the mechanisms of social security (cf Friedman 1981; Esping-Anderson 1994; Alber 1988).

The South African government is committed to a programme of "nation building", although this is primarily a political ideology directed against ethnic and racial fragmentation. The government does not have the economic resources to implement a typical West-European welfare state. However, its state spending priorities in successive budgets have been redistributive in nature, favouring the poorer sectors of the population and taxing the wealthier sectors, as in Tables 1 and 2 above. To operationalise the transfer of resources, taxes on the wealthy are often imposed by direct user fees such as toll roads, school fees,[14] stamp duties, transfer duty on fixed property, inheritance tax, tax on pension funds, and the like. The poor and working classes benefit from this redistribution in rational and legal ways, such as the right to an old-age grant, a children's grant, free medical treatment for pregnant women and children under six years of age at state hospitals, free and compulsory education, housing subsidies for the working class and a limited supply of free water and electricity to the poor. In this way the legitimacy of the ruling party, the state and its ruling power elite is accomplished. In other words,

14 School fees and toll roads, it goes without saying, represent a regressive tax on the poorer sectors of the community. A government school in South Africa may not exclude a child on the grounds of its parents' ability to pay the school fees. This is in keeping with section 29(1) of the South African constitution which gives everyone the right to a basic education. It can also be argued that the recently implemented tax on pension funds is regressive at least to the poorer members of such a fund.

a nation state is consolidated by the use of economic redistribution and limited welfarist policies (cf also CDE 1999).

6.4 The "resources of power" thesis

This thesis holds that the growth of reformist (or "progressive") trade unions and the ascendancy of labour-based political parties to executive power are the main forces in devising and developing public policies designed to bring about greater equality between classes in a bourgeois capitalist state (cf Shalev 1983: 317; Esping-Anderson 1987). The social and political transformation of a capitalist society rests on the balance of power achieved between classes (the capitalists and the working classes). Where a strong labourist political party is in power for a significant period of time, supported by a well-organised and disciplined trade union movement, the state is likely to embark upon social policies that are redistributive and welfarist in orientation. The ideology of the ruling party in power is important in determining the type of options and actions that will be taken to shape a welfare state in such a society. Such parties will try to reduce inequalities in society — which will affect the poor and the labouring classes. These in turn form the basis of such a labour party and will tend to help it in remaining in power. Transforming a capitalist state to a welfare state is in essence a political process that intervenes in the political economy of such a state to redress economic and social inequities if not inequalities.

This is probably the strongest theory supporting the ultimate development of a welfare state in South Africa. The ANC is a centrist to left-of-centre, African nationalist-labour coalition and is supported by a strong labour union movement. Indeed, the ANC, the South African Communist Party and the Congress of South African Trade Unions are in a formal governing alliance, the so-called Tripartite Alliance. In its own words the ANC is:

> A broad multi-class, mass organisation, uniting the motive forces on the basis of a programme for transformation. It must strive to remain a broad democratic movement by accepting into its ranks all those who accept and abide by its policies and objectives.

> Among these forces are the organisations of the working class — the South African Communist Party and the progressive trade union movement, represented by COSATU, in particular. [...] This Tripartite Alliance is therefore not a matter of sentiment, but an organisational expression of the common purpose and unity in action that these forces share (ANC Policy Statement 1996).

However, at present a black capitalist elite is developing in the ranks of the ANC. This elite has strong ideological bonds with the governing party, and members often leave active politics to start very lucrative private capitalist ventures. Therefore the governing party faces the "contradictions of capitalism" thesis mentioned in the first theory explaining the welfare state, above. As has been shown in the brief exposition of the ANC government's social policies, these are quietly redistributive. However, they favour not only the poorer working classes of South Africa, but also the previously disadvantaged members of the black elite, by means of explicit affirmative action programmes. Inasmuch as class differences develop within the ANC, the contradictions of capitalism will also make themselves felt in the ranks of the ruling party. If the "resources of power" thesis is correct, and the economy becomes sufficiently industrialised and produces significant surpluses, the ANC alliance may well make welfare state-like compromises between (black) capitalists and black labour unions.

7. Comment and reflection

From the above highly condensed analysis it is clear that the ANC government is determined to redress the imbalances of the past by means of state intervention policies in the political economy. However, although some of its rhetoric is socialist, it is hampered by the fact that the ANC does not only represent the workers of South Africa. An African nationalist elite controls the ANC, and unsurprisingly its policies also favour this constituency. A strong movement towards the *embourgeoisement* of Africans in South Africa is under way, undermining the idea of working class solidarity. The ANC has to manage a precarious balance of power between the aspirations of the poor and the working classes of South Africa and the economic desires of the aspiring African/black elite as well as the capitalist business enterprises and their class. In fact, the black elite has done very well out of the state transformation of South Africa since 1994, while the poorest sector of black society has been left behind.[15]

In the light of the evidence presented above, South Africa is clearly not a typical welfare state — the economic resources to support a fully-fledged welfare state are not available, and the global economic power structures do not favour such an economy. A glance at the level of welfare expenditure as a percentage of GDP confirms the minimalist welfare state in South Africa. During the last five years, the state spent around 15% of GDP on its welfare budget: education, health and social security.[16] The typical Scandinavian welfare budget is around 30% of GDP. Even fastidious Thatcherite Britain spent around 27% of GDP on welfare (Abrahamson 2001: 2). Moreover, in South Africa, strong class divisions reinforced by racial divisions at present impede a national feeling or even a conception of social solidarity, essential to the promotion of a welfare state. The middle classes, mostly white, have very little welfare protection. Middle-class South Africans have limited access to state-aided health care, unemployment insurance and old-age pensions. The quality of state health care is poor.[17] Unemployment insurance and old-age social grants are strictly means tested.[18] Consequently many middle-class citizens do not qualify for unemployment insurance or old-age grants. Social

15 The income of black people in the high-income group in South Africa has increased from 13% of GDP in 1996 to 23.7% in 2001, which represents a very significant increase over five years (*Beeld* 20 February 2001: 6).

16 Cf Table 2.

17 The private sector spends around R35 billion *per annum* on health services, much of this financed by medical aid schemes (*F & T* May 2001: 23). The funding of these medical aid schemes in terms of a welfare state is nothing but a private tax to provide adequate health care to the wealthier sections of society. In my opinion this type of private tax mitigates against the feeling of social solidarity needed to maintain a welfare state.

18 Unemployment insurance is only available to those earning less than R93 000 *per annum*. Old-age social grants are low — R570-00 per month, and means tested. Persons owning property and receiving an income were tested by a social welfare officer in terms of Act 59 of 1992. From 1 December 2001 the property clause has been eliminated. However, in terms of the Law "grants are not meant for people who have enough money to care for themselves. Grants are meant for those who are in most need." <www.welfare.gov.za/socialgrants>.

grants for the aged are non-contributory grants from the public purse. The state-managed unemployment fund is a Bismarckean contributory type of fund, and is not universally available to all employed people. Only lower middle-income earners qualify for membership and the benefits are meagre. After six months, most benefits expire. Yet, at the same time, the middle classes are fairly heavily taxed to provide for the minimalist social grants made to the poorer sectors of society. This class-based welfare discrimination does not encourage class-based social solidarity and is divisive.

The Scandinavian welfare state promotes social solidarity via the idea that both contributing to welfare and drawing benefits, are universal. Therefore every working (or income-generating) individual must contribute by way of social security tax in order for everyone to share in the benefits of the welfare state. The type of social benefits paid out by the South African state, as well as its distinct redistributive policies,[19] do not comply with the welfare state principle of social solidarity. Taking from the rich and giving to the poor enhances neither the idea of reciprocity of the Beveridgean or Bismarckean welfare state nor the idea of role reversal inherent in the Scandinavian conception of the welfare state. At best, state social welfare in South Africa is aimed at poverty relief and minimalist social protection.

However, one should also consider the substantial influence of the limited social redistribution that is taking place within the constraints of the current economic capacity. The Minister of Finance referred to this in his 2001 budget speech, and it bears repeating that the largest single redistributive programme of the government is the system of social grants for the elderly, the disabled and child support, providing R31.6 billion support to 3 million South Africans (7.5% of the population) every month. Moreover, the size of the education budget (R58.5 billion) and the health budget (R29.6 billion) point to considerable "social welfare spending" in South Africa.

19 A further complication in South Africa is that the state's redistributive policies are not simply class-based. Due to our apartheid history, the distribution of wealth in South Africa is visibly race- or colour-based. Thus wealthy whites perceive redistribution in class terms as well as racial terms. Often, ANC government rhetoric creates the impression in white capitalist circles that they are seen as the undeserving rich who have to fork out their wealth to the deserving (black) masses.

Despite its redistributive policies, the ANC government has made provision for the role of free markets in the restructuring of South Africa's political economy. In constructing and reconstructing South Africa's political economy, the government has chosen to let a free market economy take its place alongside its cautiously welfarist policies. Wealth has to be created before it can be redistributed. Private and NGO welfare, private insurance and extended family care — leaving part of the welfare function to private individuals and respecting their autonomy — all augment state welfare in South Africa.[20]

In my view it is most likely that a welfare state will develop in democratic South Africa in the longer term — depending on the success of economic growth and development. The thrust of the government's GEAR programme is to create wealth in order to redistribute it. As more wealth is created in the modern sector of the economy, a further increase in urbanisation can be expected, as in other industrialised states. A crucial coalition of workers and the ANC, as a social democratic movement, will find ways and means to redistribute resources to the working classes via the typical political mechanisms of the welfare state. The bourgeoisie — the majority of whom will be "black" — will progressively be brought into the welfare net. As more resources become available, welfare services will improve and a larger proportion of the state's budget will be allocated to funding welfare. The "resources of power" path towards a welfare state may conceivably be followed. The successes of the redistributive measures practised by the ANC government so far should enhance the image of the ruling party and help it to stay in power. The ANC has been successful in persuading its electoral constituency that it is the only party which can improve their economic condition.[21] Thus, while South Africa is not a welfare state, in my opinion the indications are

20 A reviewer of this article poses a question as to whether this is not quite similar to the Western European situation. It is not. A person in a European welfare state, whether Bismarckean, Beveridgean or Scandinavian, can draw life-supporting social benefits without resorting to private charity. Critics of the European welfare state complain that it has destroyed the ordinary European's sense of charity. For an incisive critique cf Marsland 1996: 201, 202.

21 The ANC Alliance has won two national elections as well as two local government elections with overwhelming majorities since 1994. Cf Lodge 1999: ch 1.

that increased economic prosperity will turn it into a more comprehensive welfare state.

All three theses on the development of the welfare state discussed above support this conclusion. The "contradictions of capitalism" thesis holds that the state uses social welfare to pacify workers in order to ensure favourable conditions for capital accumulation. The ANC government is doing this; indeed it is criticised by key members of the Tripartite Alliance of cuddling up to capitalism.[22] The "nation-state" thesis argues that the welfare state is a rational aid to the ruling elite in incorporating the working class into the capitalist economy by way of social security measures. The analysis of section 4 and Tables 1 and 2 illustrates how the ANC government has been doing this. The "resources of power" thesis reasons that labour-based coalitions which hold executive power tend to devise public policies designed to bring about greater equality among the classes. The redistributive policies of the ANC government have been working towards such an outcome over the last seven years. This has been more successful in racial terms than in class terms, but the (black) poor have benefited, as argued above.

Inasmuch as the present social transfers in South Africa do not promote social solidarity — since they take from the rich and give to the poor, without benefiting the middle classes — progressively improving social benefits over time would enhance social solidarity and the feeling of reciprocity. Once the middle classes are brought into the social security net, they will have a vested material interest in the expansion of the welfare state and its consequent benefits. The point is this: the modern capitalist economy has not solved the problem of the vagaries of the free market and its cyclical nature. As such, the more society is exposed to a modern industrial and service-based economy, the more vulnerable its members become to its inevitable business cycles. In such circumstances, politics tends to become the politics of welfarism, where the electorate looks towards the state and its political power to intervene on their behalf to ensure them against economic vulnerability. The welfare state in Europe has been tena-

22 The statement of the SA Communist Party Executive after its meeting of 15 and 16 September 2001 is illustrative of this type of criticism (*Beeld* September 2001: 2).

cious and resilient, despite two decades of relentless pressure against its benefits by what is popularly known as the neo-liberal faction.[23] My contention is that in South Africa, the strong labour lobby is laying the groundwork for a welfare state by means of their partial capture of state power via the ANC. With increased economic capacity the demand for social benefits will remain, and South Africa will steadily progress on the road towards the typical welfare state — a route well travelled in the industrialised world — unless economics as a discipline finds an answer to the business cycle. Try as it might, given the last two hundred years of capitalist progress and Marxist socialist failure, the discipline does not seem to be finding it. The welfare state is the consequence as political forces drive elected politicians towards using state power to protect society against the failures of the market and the vagaries of life. There is little reason to believe that, in the circumstances described above, South Africa will prove to be an exception.

23 For a discussion of the resilience of the welfare state in Europe, cf Scarborough 2000: 230-3.

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