

# The compatibility of inequality and democracy: The necessity and merit of nationalisation and redistribution

## 1. The inequalities of apartheid

In his first public address after his release on the 11th of February, Mr Mandela said:

"There must be an end to White monopoly on political power and a fundamental restructuring of our political and economic system to ensure that the inequalities of apartheid are addressed and our society thoroughly democratised."

With this important statement Mr Mandela made three things quite clear. The ANC demands the following:

- (a) *Firstly, a fundamental restructuring* of the economic and political systems, and not merely a *reform* of the systems. It wants *systemic* restructuring, not adaptation within the framework of the present economic and political systems. Not *perestroika* within the old system or framework, but *perestroika* of the system itself.
- (b) *Secondly*, it wants a restructuring of not only the political and/or constitutional system, but also of the *economic* system. Mr Mandela, however, put the issue of a restructuring of the economic system squarely on the negotiating table *parallel* with the restructuring of the constitutional system. It has now become clear that the ANC regards a fundamental restructuring of the economic system as no less, and perhaps even more, important than a reconstruction of the constitutional (political) system. This does not necessarily imply that the market orientated system should be replaced with a socialist system.
- (c) *Thirdly*, that two of the main purposes of the reconstruction processes are
  - (i) to *remedy the inequality* of apartheid, and
  - (ii) to democratise our society thoroughly. Mr Mandela did not specify which one of these should get preference. Does the ANC want a democratic system to be used as an instrument for addressing the inequalities of apartheid? Or, does the ANC first want to address the worst inequalities of apartheid to create conditions conducive to a democratic system? I suppose it wants both, but given the severe inequalities, I think it is necessary to address at least some of the worst inequalities *en route* towards a democratic system. Let us look at some of the typical inequalities in South Africa.

## 2. The multiple inequalities

Now that South Africa is standing at the threshold of negotiations aimed at "creating" a New South Africa with a high degree of *social justice*, it is very relevant to focus attention on the grave injustice of the *highly unequal* distribution of power and privileges among the population groups as defined by statute. In an attempt to establish what Mr Mandela meant when he referred to the "inequalities of apartheid", it is necessary to highlight at least the following six *inequalities* as typical of the apartheid-based South African society.

- (i) The inequality in the distribution of *political power* as symbolised by the concentration of effective parliamentary power in the hands of the National Party, which represents (after

the September 1989-election) only 6,3 per cent of the *potential* electorate.

- (ii) The *inequality* in the distribution of *economic power* as symbolised by the fact that less than ten corporate conglomerates control almost 90 per cent of the value of the shares listed on the Johannesburg Stock Exchange. This high concentration of economic power in the hands of a small group of large conglomerates is a very unfortunate and also unsound feature of the South African economy. It complicates the task of constructing a *democratic* economic system – or an economic system reasonably compatible with a non-racial democratic political system – enormously. That many (or all) of these conglomerates are multi-national companies with foreign subsidiaries carries the implication that their (potential) bargaining power is exceptionally strong. The foreign "connections" of the South African conglomerates add a very sensitive international dimension to the South African problem.
- (iii) The inequality in the distribution of *property and land* as symbolised by the fact that the Land Acts of 1913 and 1936 still prohibit 28 million Blacks (with a few exceptions) to own land in 87 per cent of South African territory.
- (iv) The inequality in the distribution of *opportunities* as symbolised by the large social spending "gap" in the government's social expenditure (on education, housing, medical services and pensions), which in *per capita*-terms is at least five times larger for the relatively wealthy Whites than for the poor Blacks. In the recent Budget, social spending on Whites (mainly education) is estimated to be in *per capita*-terms three times higher than the *average* social spending on the total population.
- (v) The inequality in the distribution of *experience* as symbolised by the statutory disempowerment of people other than White and the ensuing "underdeveloped" leadership potential in these circles. Political disempowerment is not only the result of disenfranchisement, but also of the impaired political leadership after decades of bannings, gaolings, restrictions, detentions and lack of ordinary opportunities.
- (vi) Finally, the large inequality in the distribution of *income* as symbolised by the fact that the Gini-coefficient of 0,68 for South Africa is the largest of all countries in the world for which this kind of coefficient has been calculated, indicating that personal income is more unequally distributed in South Africa than in any other country. If we put the *per capita*-income of the Whites in 1980 at 100, those of the Asians, Coloureds and Blacks were 26, 20 and 9 respectively (in round figures).

Many reasons of an historical, cultural and demographic nature can be furnished for all these inequalities and for their close correlation with racially defined groups. What matters here is that the structures and policies of apartheid have created and maintained, over a period of at least 100 years, social, economic and political conditions that were exceptionally favourable for Whites and unnecessarily unfavourable and even exploitative for the rest of the population. Although apartheid cannot be blamed for all the inequalities, a very large (albeit indeterminable) part can be attributed to it.

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If in the absence of apartheid – with its policies of dispossession, disempowerment, discrimination, deprivation and neglect – the *per capita*-income of the four groups (as presently defined) were not (as was the case in 1980) 100, 26, 20 and 9, but, say, 100, 35, 25 and 19 (i.e. 5 percentage points more for Asians and Coloureds and 10 points more for Blacks), South Africa would have been an enormously better and more humane country than at present.

In the face of the sharp inequalities and the corresponding hardship for people other than Whites, it has not only become desirable but also indispensable for the Whites to acknowledge explicitly that a huge "apartheid debt" has accumulated in their books, that structural factors were responsible for it and that a major effort to repay this debt within a reasonable period – i.e. over a timespan and in instalments that will not cause unnecessary disruption – cannot be postponed any longer.

In the recent Budget the government has made a first and tentative gesture to acknowledge guilt for the exploitative nature of apartheid and has accepted responsibility – also very tentatively – for affirmative action to rectify wrongdoings of the past. A R3 billion trust fund for socio-economic upliftment and the removal of backlogs has been established for the deliberate purpose of symbolising an important change of heart on the part of the NP government.

Unfortunately, R3 billion is pathetically little in relation to what is needed. One feels inclined to discredit it as a publicity stunt to distract attention from the fact that the Budget was yet another typical apartheid, or White man's, or rich man's, Budget.

The creation of the R3 billion fund is a clear indication that the government has totally misunderstood the nature of 20th century representative democracy and its public financial and welfare State implications. If the government is really concerned about socio-economic upliftment of the disenfranchised and deprived Black population, it should explicitly acknowledge the untenability of the present social spending "gaps" and make a clear commitment concerning the closing of this "gap" as a high and pressing Budget priority.

To give the necessary high priority to the closing of this "gap", every component of social spending should remain within the normal framework of public finance and should be synchronised with short and long term financial and economic considerations to ensure the most favourable trade-offs in advancing towards greater social justice. Such an approach will also highlight the dire need for an immediate integration of all public facilities.

Instead of creating a charity-like fund outside the orbit of normal fiscal practice, the government would have done much better if it had appointed a representative non-racial body to advise it publicly on all aspects related to the use of public facilities and the closing of the social spending "gap". Such a body could have made an enormous contribution by sensitizing the public to the kind of social spending that would in any case become normal fiscal practice in a future non-racial democracy. I sincerely hope that this year's Budget was the last typically apartheid, or White man's, or rich man's, Budget.

### 3. Is democracy attainable and compatible with the multiple inequalities?

The multiple inequalities in South Africa create a dire need for *democracy* but at the same time the inequalities represent a state of affairs that is all but conducive to the establishment and maintenance of a democratic system. It is illuminating to focus on the apparent *incompatibility* of the present state of affairs on five different levels of society with the state of affairs that will facilitate a transition towards a true democracy. Such

a focus gives us an opportunity to distinguish between the state of affairs that prevails today and that which OUGHT TO prevail if we want to be successful in the creation of a truly democratic South Africa.

#### (i) On the level of attitudes

The present situation is characterised by *conflicting* and divergent attitudes, views, values, claims and expectations between the different population groups. The conflict is in certain respects so severe that we can speak of racial hostility.

Experience in other countries shows that to establish and maintain a stable democratic system, a convergence towards *common attitudes*, values and views is highly desirable while the claims and expectations of the several groups should be scaled down to realistic levels. *En route* towards a democratic system we will need a high degree of inter-group tolerance and empathy, while the privileged White group would have to display a preparedness to redress its mistakes and wrongdoings under the apartheid system.

#### (ii) On the social level

South African society is characterised by apartheid, separation, ethnic conflict and by language, cultural and religious barriers. The lines of cleavage are racially determined and cumulative in nature. The several racial groups are locked in a zero-sum-game – what one group wins is often at the expense of another. South African history over a period of 340 years is the sad tale of ongoing group conflict. Each group has tried – and is still trying – to get rich by plundering the others!

To create a stable democratic system we have no choice but to integrate the different groups and to work very hard at creating a single South African identity with common and overlapping interests and loyalties. In the New South Africa the lines of cleavage should be non-racial and *cross-cutting*.

#### (iii) On the macro-economic and international levels

Since 1974 the South African economy has been in a state of secular stagnation, growing un- and underemployment, serious balance of payment problems, a large outflow of capital, chronic inflation and creeping poverty. It is truly a very dismal state of affairs. As a developing country with a very high population growth rate and large pockets of poverty and unemployment, the (shrinking) tax base of the economy is simply too small to sustain a democratic system with a broadly based representative parliament. If a truly representative parliament for all 37 million people were to be established tomorrow, the representatives of the disadvantaged, say, 70 per cent of the population would, in all probability, be inclined to use the fiscal powers (vested in the majority) to redress the poverty and deprivation of the said 70 per cent in too short a period of time. It is important to realise that the tax base of the underdeveloped and stagnant South African economy is simply too narrow to sustain a fully developed democratic parliamentary system. This is not an argument against democratisation; it is an argument to point out an important stumbling block in the road towards a democracy.

In order to progress towards a democratic system we desperately need a high growth rate, sustained for a decade or longer. A high growth rate is necessary to create job opportunities, to soften the severe poverty problems, but especially to broaden the tax base of the economy. The only way to attain the needed high growth rate is successful political reform that will not only lead to a lifting of sanctions, but also to a large influx of foreign capital.

We must not underestimate our almost slavish dependence on foreign capital. Over the last thirty years our capital/labour

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ratio has tripled while saving rates are at an alarmingly low level. Consequently we need a very large influx of foreign capital. To maintain an annual growth rate of 5,5 per cent in a (say) ten-year Transformation period, we will need an influx of at least \$10 billion annually.

Is it possible to attract such amounts? It will be extremely difficult. During the Transformation period we will have no choice but to create conditions that will continually be attractive enough to draw large amounts of foreign capital.

### (iv) On the budgetary level

We referred earlier to the inequality in opportunities and to the large social spending gap. In the March Budget R28 billion was earmarked for social spending. Almost R12 billion will be spent on the (relatively wealthy) 5 million Whites or an estimated R2 300 per person. Almost R12 billion will be spent on (the very poor) Blacks or an estimated R420 per person. The remaining R4 billion will be spent on the Asians and Coloureds, or an estimated R1 000 per person.

These inequalities in the social spending pattern have been broadly maintained since 1910 and were for the greater part of the intervening 80 years even more unequal. The *cumulative* effect over at least four generations, and the consequential effect on opportunities and performance, is undoubtedly very large.

I do not think there is anything that demonstrates the social injustice of apartheid more dramatically than these unequal social spending patterns. Perhaps no other aspect of apartheid has been more discriminatory than the unequal budgetary treatment!

I hope it will be appreciated that the movement towards a democratic system will have important implications for the public finances. Any group of people that has been disenfranchised for a long time, and suddenly obtain parliamentary bargaining power, is always inclined to use its newly acquired power to influence budgetary spending in its favour. We have every reason to believe that a broadening of parliamentary democracy in South Africa will also have this effect.<sup>1)</sup>

It is useful to look at the public financial implications that parliamentary democracy have had in Western or OECD countries. In 1910 public spending was less than 10 per cent of GDP, and social (or welfare) spending was very small. By 1955 public spending had increased in OECD countries to 28,5 per cent of GDP, to 41 per cent in 1975 and to 45 per cent in 1983. It has declined to about 42 or 43 per cent at present. Just more than half of public spending in OECD countries is social spending on education, health services, pensions and housing. This high level of social spending – of almost 25 per cent of GDP – in OECD countries, must be regarded as a luxury that only the highly industrialised First World countries can afford. In the recent Budget the amount earmarked for social spending in South Africa was 10,3 per cent of GDP. Given the level of economic development in South Africa, we can hardly afford a much higher percentage of GDP for social purposes.

It is very important to realise that the abolition of apartheid will release a demand for a variety of economic benefits and social services that has been suppressed purely by apartheid restrictions. The demand for education and adequate resources for Black South Africans within the education system will probably constitute the largest single budgetary increase in the short run. And, given the poorer health of the majority of the population, relative to that in countries of the same level of development, improving access to health facilities must be very high on the list of priorities of a future democratic government. The same can also be said about poverty relief, pensions and housing.

It is of course very difficult to speculate on the size of the amount that will be necessary to meet these additional demands. But if an attempt had been made in the present Budget to increase social spending to reach *parity* in social spending for the total population at current White benefit levels, it would have necessitated *additional* social spending of R56 billion. Total social spending would then have increased to R84 billion (or 31 per cent of GDP) and total government spending to R130 billion or 48 per cent of GDP! This is clearly unattainable.

If an annual growth rate of 5,5 per cent can be maintained during a 10 year Transformation period (and that will not be an easy matter), the percentage of GDP needed to attain parity for the total population at current White benefit levels will decline from 31 per cent of GDP at present to approximately 22 per cent of the considerably higher GDP at the end of the 10 year period.

### (v) On the level of economic structures and/or power relations

We have already referred to the high and unhealthy concentration of corporate power in the South African economy. Over and above the concentration of power and wealth in less than ten conglomerates (with international connections), we must also take note of the widespread wealth and economic empowerment in White circles and contrast it with the relative economic disempowerment of people other than White. Given the unequal distribution of economic power, the emergence of the Black trade union movement must be regarded as of critical importance.

*En route* towards a political and economic democracy, a more "democratic" dispersal of corporate power is necessary. How to bring this about without killing the goose that lays the golden eggs, or not to make the goose fly away to its foreign subsidiaries, is a tremendously difficult problem. Those who think that nationalisation can solve this problem are unfortunately mistaken.

But what should be done about the very unequal distribution of economic power and the relative economic disempowerment of the Blacks? The first thing to be done is to try to convince both the White political and the White economic establishments of the serious nature of the unequal distribution of economic power and of the need to address this problem as part and parcel of the democratising process. The second thing to be done is to throw the ball in the court of the corporate sector. We should request it to take the initiative and come forward with proposals on how to "democratise" economic structures to a satisfactory level, and how an (adequate) economic empowerment of Blacks could be brought about.

## 4. The nationalisation issue

In many White circles – and especially in White business circles – it has for years been taken for granted that the reform needed in South Africa concerns constitutional matters only and that reform and/or restructuring of the economic system is neither necessary nor desirable, or that it would be advisable to leave the economic system intact to the extent possible, given the proven (or alleged) merits and productivity of the so-called (or alleged) freemarket Capitalism or private enterprise system in South Africa. To this belief Mr Mandela puts a dramatic end when he said on 13 February that the nationalization of the gold mines is still part and parcel of ANC policy. Although Mr Mandela could have stated his case on nationalization with greater circumspection, his statement – irrespective of the merit of it – has played a very important functional role. It shook the Rip van Winkles of the business community – and a very large percentage of them meet this

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description – out of their “sleep” and complacency on the need for the reconstruction of the South African economic system. Since Mr Mandela’s nationalization speech, business people are clearly prepared to talk about economic reform issues and to consider options that were simply unthinkable a year ago. Looking back one cannot but ask how it was possible for the great majority of the business community to have been so naive as to think that reform in South Africa will not affect the economic system and the distribution of property and income.

The reaction in some business circles – and especially in the Commanding Heights – was almost hysterical. This was really not necessary. Firstly, people ought to have realised that given the whole history of the ANC there cannot be but a great difference between their reform rhetoric and their ultimate reform actions – at least at this stage of the debate.

Secondly, and more importantly, given the very large inequality in property, income and opportunities between Black and White after 100 years of Apartheid and Colonial and (highly centralized) South African Capitalism, we should have expected that the ANC will consider every possible instrument to redress the inequalities. It would in fact have been very strange for the ANC to exclude nationalization as a possible policy instrument for bringing about a more equal distribution of property. I have no authority to give an interpretation of the real intentions behind Mr Mandela’s remark on nationalisation. But I think it is reasonable to assume that he used the word “nationalization” as a code word to emphasise how strongly the ANC feels about two matters: the restructuring of the economic system, and especially of power relations and control, and the need for a redistribution of income as well as property.

Thirdly, the ANC is well aware of the use the NP government has made of public corporations to bring about the upliftment of the Afrikaners. Although the NP has not actually nationalised existing private enterprises, it has established new public corporations and/or expanded existing ones and used them as instruments to expand the Afrikaner’s role in the economy. The most important of these public corporations are Iscor, Sasol, Eskom, Foskor, SABC, SATS and the Department of Posts and Telecommunication.

In referring to those public corporations and the way they were used by the NP government to create lucrative job opportunities for Poor White Afrikaners and opportunities for Afrikaner entrepreneurs to gain the necessary experience in business matters, I am not saying that an ANC or a future democratic government should copy the NP policy on public corporations. All I want to say is that we should expect the ANC to use the idea of nationalisation at least as a propaganda instrument. But if one considers the use made of public corporations by the NP government over the last 40 years, the NP and Afrikaans speakers should be very careful in their criticism of the ANC’s nationalisation policy if they are not to be guilty of serious hypocrisy. In an editorial in *Die Burger* on 10 April 1990, a sharp attack was launched on the ANC for allegedly not making any contribution of merit to the debate on economic policy. The editorial contained inter alia the following sentence: “The rhetoric coming forward from ANC circles, is the *socialistic parrot-like screams* (sic) on nationalisation and the redistribution of income”. I regard this kind of criticism on the ANC from people and a newspaper that have been pampered and “subsidised” for so many years at the cost of the majority of the population, as shocking and despicable.

### 5. Nationalisation as a “plank” in the ANC policy platform

The American political lexicon (or jargon) often refers to the policies of a political party as a “policy platform” and describes

different policy instruments as “planks” in the policy platform. In terms of this political jargon, we can say that we should expect that nationalisation will undoubtedly remain a plank in the ANC’s policy platform as part and parcel of the policy to bring about a somewhat more equal distribution of ownership of enterprises, property and land. The real question is how “narrow” or how “broad” this policy plank should be.

If we take the poor state of the South African economy, the widespread poverty and the need for a high economic growth rate and international competitiveness into account, I want to make a plea that this “plank” should be a relatively “narrow” one. During the transition towards a post-apartheid economy and during the early phases of such an economy, South Africa will be highly dependent on a large influx of foreign capital and entrepreneurship, as mentioned earlier. In order to encourage foreign investment and to maintain a high growth rate, external and internal business confidence is of crucial importance. Any New or Transitional government, will have the difficult task of creating conditions attractive or friendly enough to promote the necessary foreign involvement and confidence. If nationalisation features prominently it may easily undermine efficiency and job-creation, harm business confidence and keep foreign investment out.

Although ordinary nationalisation and State ownership of enterprises may not be advisable at this stage, schemes to offer the workers meaningful participation in company equity could be a more promising alternative. The fact that at least 90 per cent of all shares are still in White hands creates both the need and the opportunity for variants of company-specific share-ownership schemes. Another alternative to nationalisation is the appointment by a new democratic government of a certain number of directors on the boards of certain companies which are regarded as of strategic importance.

A future democratic government may be inclined to use the economic policy of the NP after 1948 as a model or as a justification for its own economic policy. It would be necessary to convince the future democratic government that a repetition of the NP economic policy for Afrikaner upliftment will have disastrous consequences. Although a need for measures of socio-economic upliftment of the Poor White Afrikaners may have been necessary after 1948, the NP has completely overdone it. Almost immediately after the NP took office in 1948, it started to implement a three-pronged programme. Additional discriminatory measures were enacted and extended towards the Coloureds and Indians, the bureaucracy was systematically enlarged and the parastatals were enlarged and used to create lucrative job opportunities for (mainly) Afrikaners, and a variety of welfare (or redistributive) programmes were launched for the upliftment of (mainly) the Poor White Afrikaners.

From the Afrikaner point of view these measures were very advantageous. After some 20 years the Poor White problem had been solved to a satisfactory degree. Unfortunately, the NP continued with its policy of White (and especially Afrikaner) protection and privileges. While the Afrikaners’ *per capita* income was less than 50 per cent of the income of their English speaking counterparts in 1948, it has risen to 75 per cent of (now much higher) income of the English speakers. The main reason that a new democratic government cannot copy the NP’s economic policy – including the use it made of parastatals (or “nationalised” concerns) – is that the Afrikaners were (at that stage) only 12 per cent of the population while the Blacks are no less than 75 per cent. If a repetition of the NP’s economic policy should bring about a destruction of the South African economy – as may easily happen – it will be very much to the disadvantage of the poor three-quarters of the population.

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Although measures to bring about a more equal distribution of property, income and opportunities for Blacks are necessary and justifiable, a new democratic government unfortunately cannot afford to intervene as drastically in the economy as the NP government did. Firstly, what the NP has done is wrong, and we cannot afford the same wrong-doing a second time – certainly not to the same extent. Secondly, the numbers involved are such that a solution of the “Poor Black” problem over a period of 20 years is simply not possible, given the tax and employment capacity of the relatively small modern sector of the South African economy.

### 8. The big trade-off

*En route* towards a truly democratic South Africa we shall continuously be confronted by the terribly difficult trade-off between *growth vs redistribution* and *efficiency vs equity*. To succeed at every point in time with the correct trade-off, we shall need the Wisdom of Solomon.

The case to give preference to Growth and Efficiency is very strong and will remain strong for many years. But the case for Redistribution, for Equity, for greater Social Justice, for Poverty Relief programmes, for the Redress of the Inequalities of Apartheid, for appropriate Land Reform Programmes, etc., is also very strong – perhaps even stronger! The only chance we have to make continually reasonable trade-offs between *Growth* and *Equity* is to and maintain a growth rate of at least five per cent per annum. But that will only be possible if a high influx of foreign capital takes place and we will only succeed in attracting the necessary foreign capital if economic conditions conducive to growth, efficiency and economic stability can be maintained. But at the same time, the rest of the world will only be prepared to “normalise” relations with South Africa if apartheid is abolished and if *visible* movement towards greater social justice occurs!

In conclusion we should realise that it will be extremely difficult to reach compatibility (or reasonable trade-offs) of *Growth* and *Redistribution*. Success will depend critically on the preparedness or attitudes of three collective parties:

*Firstly*, a preparedness of people other than Whites to scale down their expectations and to be patient;

*Secondly*, a preparedness of the relatively wealthy Whites to make sacrifices to redress the wrong-doings of apartheid and to repay their “apartheid debt”, and

*Thirdly*, a preparedness of the rich countries of the world to give development aid to South Africa and of private enterprise in those countries to (re)invest on a relatively large scale in a non-racial democratic South Africa. We can only hope for support from foreign private companies if the Southern African based companies set the necessary example of commitment towards South Africa.

Given that attitudes and social and economic circumstances are at present not conducive to the immediate establishment and maintenance of a truly democratic system, the processes of normalisation, liberalisation and democratisation should meanwhile be promoted as strongly as possible on every level of society. The democratisation and integration of every facet of South African society must be regarded as an indispensable (pre)condition to create a *civic society* capable of sustaining a constitutional and economic democracy in the social democratic sense of the word. Although it may sound paradoxical, the success of such a broadly based process of *democratisation* has become an important (pre)condition for democracy.

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### Notes

- 1) During February of last year I wrote a rather innocent article in *Business Day* referring to the public financial implications of a process of democratisation. I argued that it is necessary to acknowledge explicitly the public financial implications of a democratic system and stressed the need to address this issue during negotiations. This remark sparked a two-month long vendetta against me in *Business Day*. I hope Mr Ken Owen will one day acknowledge the unreasonableness of the vendetta and apologise for the part he played in it.