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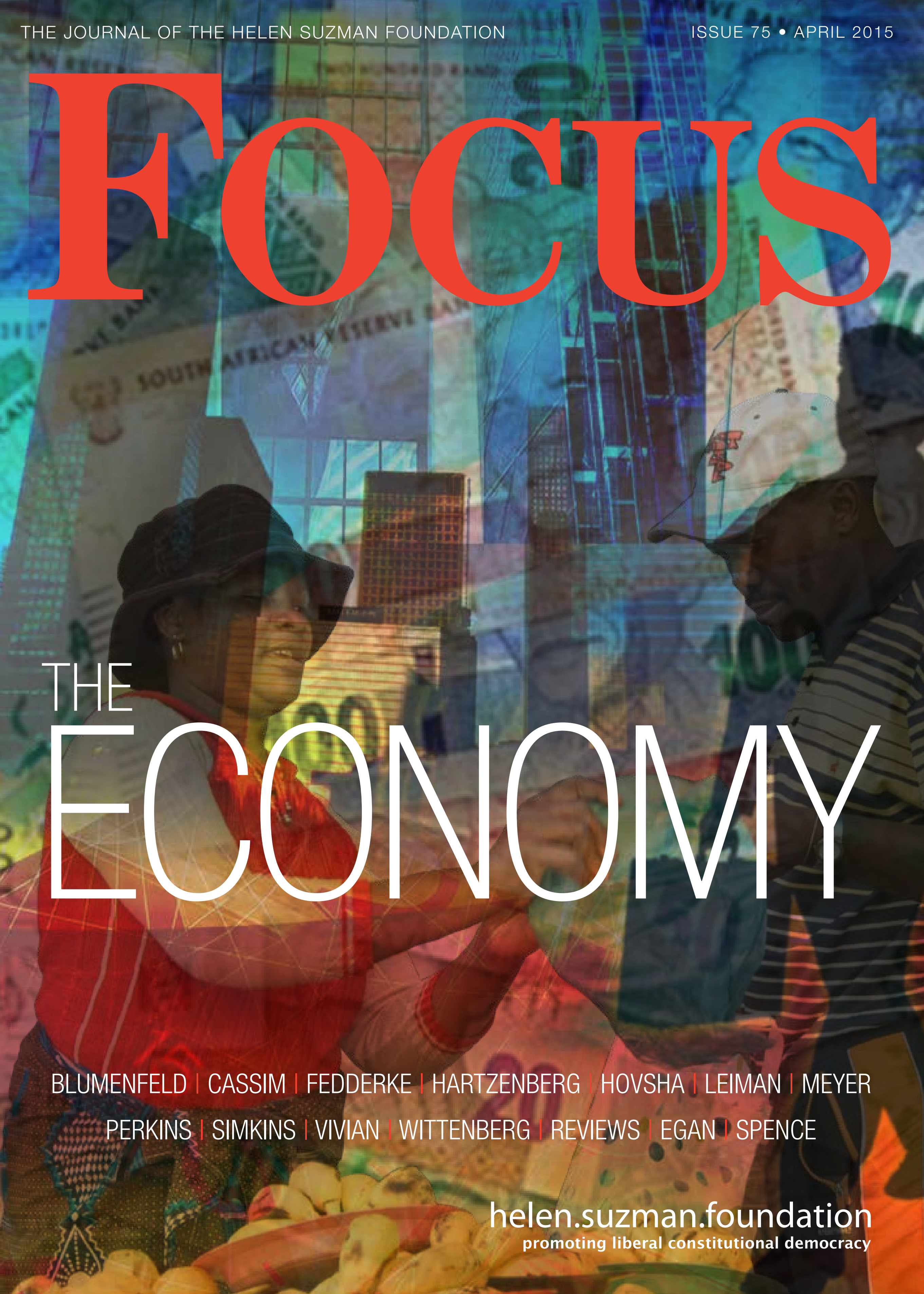
Focus



THE ECONOMY

BLUMENFELD | CASSIM | FEDDERKE | HARTZENBERG | HOVSHA | LEIMAN | MEYER
PERKINS | SIMKINS | VIVIAN | WITTENBERG | REVIEWS | EGAN | SPENCE

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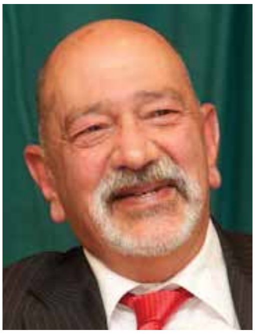
The views expressed in the articles are those of the authors. They do not necessarily reflect the views of the Helen Suzman Foundation.

The Economy



FRANCIS ANTONIE is the Director of the Helen Suzman Foundation. He is a graduate of Wits, Leicester and Exeter Universities. He was awarded the Helen Suzman Chevening Fellowship by the UK foreign Office in 1994. From 1996 to 2006 he was senior economist at Standard Bank; thereafter he was director of the Graduate School of Public and Development Management at Wits University. He is the founding managing director of Strauss & Co.

This edition of ***Focus*** *is dedicated to the memory of Prof. Harry Zarenda, who has passed away recently. Harry was a Research Fellow of the Helen Suzman Foundation. He was – as Johannes Fedderke points out – one of the most dedicated teachers of Economics. He deeply influenced many generations of students. He was a warm, generous human being, whose commitment to intellectual life was widely known and respected by both his colleagues and students at Wits. His generosity was not confined to helping students when they got themselves into financial difficulties, but also extended to an extraordinary generosity of spirit. As a teacher, he took enormous pains over his students, and never sought rewards beyond what he understood to be his duty as a teacher. Fuad Cassim, in his eulogy to Harry, speaks about his commitment to and passion for putting people first. He was, as Fuad says, a true* ***mensch****.*

The articles in this edition of *Focus* are written by former colleagues who all wished to memorialise Harry's memory by writing on their current research interests.

Jesmond Blumenfield reflects on South Africa's long running quest for economic growth. He reviews the various initiatives post-1994, beginning with the RDP and GEAR, and he goes on to consider ASGISA, the New Growth Path and the National Development Plan. He concludes with a discussion of SMEs and highlights the great irony in South Africa's hitherto disappointing search for growth – that SMEs are a primary source of output and employment growth. Policy makers should take careful note of his observations.

Charles Simkins identifies ten things that one should know about inequality. He begins by noting that one must be willing to grapple with large normative issues when thinking about inequality, and he reminds us of William Blake's famous epigram that "one law for the lion and the ox is oppression." How then are we to conceive of inequality and what sort of policy interventions are both desirable and necessary? He also argues, importantly, that the distribution of income is more primary, than the distribution of wealth. Again, policy makers would do well to consider the point Simkins raises in his discussion about inequality.

Martin Wittenberg reviews the story of wages in post-apartheid South Africa. His concluding observations are that the evidence suggests that real transformation in the labour market is still some way off. Wittenberg offers two observations which may very well impact on future policy interventions: First, that while the union movement has become more representative of higher income working individuals, it seems likely that as the ANC becomes more alienated from median workers the more instability we are likely to see. And, secondly, that persistent wage inequality may very well raise the pressure for additional legislative interventions, perhaps of a populist type, in the not-too-distant future.

Joshua Hovsha and **Amy Meyer** reflect on the informal economy and sustainable livelihoods. They trace the origins of the informal economy to the Apartheid and pre-apartheid eras, and consider how marginalised men and women have had to survive through their participation in the informal economy. They highlight much of the current dissatisfaction of the existing regulatory environment which affects hawkers and informal business. They make the strong plea that South Africa's informal economy should be viewed and celebrated as a way to address past economic marginalisation and discrimination.

A starting point for addressing the problems of inequality is, of course, being in possession of the hard data. This is a prerequisite before any policy initiatives can be launched which would address the questions of inequality. Here, **Peter Perkins'** account of work 'behind the scenes' of economic statistics serves as a very useful and instructive reminder of what goes on in keeping official statistics up-to-date and relevant.

Johannes Fedderke tackles the problem of knowledge creation in South Africa by posing an initial question related to South Africa's comparative international status. He first considers South Africa in relation to the rest of Africa, where South Africa's performance appears to be reassuring in a number of areas. But, as he points out, virtually all countries in Africa lie considerably below South Africa in terms of GDP per capita measures. The more appropriate comparative group are middle-income and upper-income countries with comparable levels of development. Here, South Africa's research performance is poor. Fedderke considers various explanations including the incentive mechanisms which do exist. But the real problems lie in the incentive structures that the national science bodies provide where, he argues, incentives are too weakly tied to research excellence.

Robert Vivian argues that bureaucrats are undermining our constitutional democracy. He takes as his starting point Magna Carta, whose 800th anniversary the world celebrates — or should celebrate — this year. He reviews the various provisions or articles of Magna Carta and applies them to the South African condition. The Financial Services Board, should take special note of Vivian's argument — but so should Parliament which as an institution, he argues, has failed.

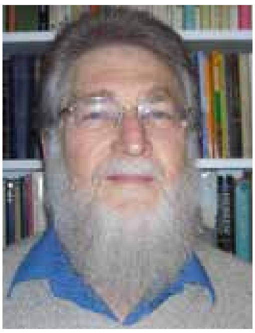
Anthony Leiman considers the South African fisheries in the context of conservation, competition and industrial organisation. Many of the conclusions are quite startling, and almost counter-intuitive. But this may be so only because we have been schooled into believing that a greater diversity in terms of numbers is the way forward. Leiman argues that when access to fishing is fragmented, and fishing rights are insecure — and there does appear to be a secondary market in these fishing rights — then the fishing industry itself is about to enter dire straights.

Trudi Hartzenberg considers the major challenges surrounding South Africa's regional integration within the context twenty-first century trade developments. She stresses that regional integration has to be rules-based, transparent and predictable, and that there must be legal certainty around investment, production, trade and work in Africa. Without these certainties Africa will be severely disadvantaged as the century proceeds.

Fuad Cassim brings us back to the questions of growth and reform in South Africa, where he introduces some lessons from India's *Licence Raj* system. Cassim is concerned about the levels of distrust that exist between the private sector and government. As he points out, a similar situation prevailed in India. But through small, but significant adjustments of the regulatory burden, significant growth of and participation in the Indian economy resulted. As with Blumenfield, Cassim highlights the importance of small and medium businesses as the greatest creators of jobs and creators of wealth in emerging economies. He has no doubt in the importance of allowing this sector of the economy to grow because of the impact that it can have on unemployment and social tensions in the country. We have included Fuad Cassim's tribute to Harry Zarenda immediately after this paper.

We end with two book reviews: **Dr Anthony Egan's** review of Prof. Charles van Onselen's *Showdown at the Red Lion: the Life and Times of Jack McLoughlin* and **Prof. Jack Spence's** review of Lord Robin Renwick's *Mission to South Africa*.

A Hole-digger's Guide to Redemption: Some Reflections on South Africa's Long-running Quest for Economic Growth



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As the old saying goes, when one finds oneself stuck in a hole, it's time to stop digging. Would that South Africa's policy-makers would heed this dictum in relation to the long-standing and key objective of securing a decisive increase in the country's economic growth rate. More specifically, the ultimate aim is to raise the sustainable annual growth-rate ceiling well above its historical level of around 3.5%. Yet, in the 21 years since the advent of democracy, this overriding objective has proved worryingly elusive.

Promises (or, more often, predictions) of faster growth continue to abound in policy documents, State of the Nation addresses, budget statements and many other public sources. Yet, despite successive re-brandings and re-launches of supposedly pro-growth strategies and initiatives, the economy has remained firmly stuck in its slow-growth hole. Indeed, except in the four years from 2004 to 2007 – when the global economic environment was hugely supportive, and the average growth rate of GDP was able to rise (temporarily) to around 5% - the country's growth record has often failed even to approach its current maximum potential.

While economic growth is a complex organism, subject at different times to different currents and determinants, the basic requirements for raising the long-term growth ceiling are not all that mysterious. In essence, they require identification of the existing constraints on growth and the implementation of policies designed to alleviate those constraints. In so doing, policy-makers also have access to the lessons of past policy efforts, both at home and abroad. In a competitive world, the requisite policies almost invariably will include major improvements in the domestic business and investment climates.

For a country with such great and diverse resources, and so much economic potential, South Africa's poor growth performance surely constitutes mismanagement at best, and negligence at worst. Of course, given its legacy of Apartheid-distorted social and economic structures, the newly democratised State faced daunting policy challenges. But it also presented vast new opportunities. Indeed, in the early 1990s, at the start of its political transition, South Africa was widely deemed to have the potential to become the 'gateway' to, and the 'locomotive' of, the whole of Southern – even sub-Saharan – Africa. Instead, it has severely short-changed its own citizens and become a deadweight drag on the wider region – a sorry way to repay the sacrifices endured by all in the long struggle for political freedom.

By international standards, a target of 5%-6% growth, sustained over 5-10 years is not an excessively immodest ambition. The purpose of this essay is to demonstrate that South Africa's failure to achieve even this limited objective has been due not – as recently claimed by President Zuma – to the primacy of the continuing legacy of Apartheid, but more to the repeated failure by the ANC-led government to incentivise the mobilisation of investment capital, and to re-assure investors that their contribution is welcomed and valued.

In addressing this subject, it is useful to bear in mind four fundamental economic observations:

- First, the key long-term driver of economic growth is positive net fixed investment (or 'fixed capital formation'). In the short – or even the medium – term, the growth rate can be stimulated internally by higher consumption spending (for example, on the back of increases in domestic disposable incomes), or externally by rising export earnings. However, absent appropriate increases in gross fixed investment, such higher growth is not sustainable unless it is accompanied by higher productivity.
- Second, 'positive net fixed investment' materialises only when total ('gross') investment exceeds the rate of depreciation of the existing stock of fixed capital – essentially comprised of buildings, machinery, equipment and physical infrastructures, and the technologies they embody. The annual rate of depreciation of South Africa's capital stock is estimated to run at around 15% of GDP. Historical data show that real output growth rates in excess of 3.5% per year are achievable only when associated with gross investment ratios of 20%-30% of GDP. They also show that, in many of the past 21 years, real gross fixed investment has barely risen above 15% of GDP, implying near-negligible net investment gains.

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- Third, private fixed investment, including foreign direct investment (FDI), is not readily susceptible to coercion. It can be encouraged – or discouraged – by the general 'investment climate', and its nature and location can be influenced by fiscal or other incentives. However, its *raison d'etre* is the pursuit of profit, and the scale of capital investment is therefore driven by the scale of the anticipated excess of revenues over costs. Legislative, fiscal or regulatory measures that impose additional costs on business enterprises will influence this calculus negatively. The essential point is that private holders of potential financial investment capital are under no obligation to invest in projects that appear to them to be unprofitable or subject to excessive risks. This fact may be frustrating, even galling, for some policy-makers, but it is part of the immutable reality of market-based economies.
- Fourth, privately-driven economic growth is the ultimate source of employment growth. The nature of the growth path – 'capital intensive' or 'labour intensive' – will influence the overall rate of job creation, and public-sector 'works programmes' can temporarily absorb relatively large numbers of otherwise jobless workers. However, sustainably faster economic growth is indispensible for permanently reducing large-scale unemployment.

Development planning. In the latter half of the 20th century, it was common practice in many developing countries for governments to produce grand economic or socio-economic development plans, programmes, scenarios and visions for the future. This practice was encouraged by many development economists of the time and by appeals to some contemporary theories of development. Few, if any, among the consequent plethora of such exercises succeeded in delivering on their promises. The reasons for their failure were manifold, but they generally included excessively ambitious objectives ('targets') and seriously unrealistic assumptions, the absence of credible institutions and implementation mechanisms and, more generally, the contradictions inherent in trying to subject a market-based economy – as most developing-country economies ultimately were – to the constraints, rigours and distortions of a centralised planning process.

The already substantial evaluative literatures on these two approaches diverged somewhat in their respective focuses.

Economic reform and structural adjustment. By the 1990s, the manifest shortcomings of this 'development planning' approach had led to its virtual demise, and attention had shifted instead to the pros and cons of two other country-level approaches, namely:

- the 'economic policy reform' programmes adopted (voluntarily) by a broad range of countries, both rich and poor and socialist and capitalist alike; and
- the far more controversial 'structural economic adjustment' programmes adopted (typically involuntarily, and at the behest of the World Bank or/and the International Monetary Fund) by a significant number of (mostly) developing countries.

The already substantial evaluative literatures on these two approaches diverged somewhat in their respective focuses. The 'policy reform' school was mainly concerned with the 'how to do it' question – in particular how to maximise the benefits of policy reform for society at large. The 'structural adjustment' literature was focused on the social and economic costs – both real and supposed – of the adjustment programmes. However, both were also concerned about the underlying politics of the implementation process, with particular emphasis in the structural adjustment case of its political legitimacy. Also of common concern was a debate, both theoretical and empirical, about the appropriate sequencing of structural and policy reforms.

'Washington Consensus'. The main practical consequence of both approaches was the emergence of the so-called 'Washington Consensus', which set out a number of broadly pro-market policy recommendations for countries adjusting to a globalising world. The recommendations can be summarised as follows:

- at the macroeconomic level, promoting stabilisation of monetary and fiscal policies, and the redirection of public spending away from subsidies towards pro–growth and pro-poor services, including healthcare, primary education and investment in infrastructure; and
- at a more microeconomic level, promoting liberalisation of foreign-trade, foreign-investment, interest-rate and exchange-rate policies, privatisation of state-owned enterprises (SOEs), and broad deregulation (with appropriate safeguards) of most other markets, including the labour market.

The macro-level objectives were relatively uncontroversial, if only because prudent management and the sustainability of public finances were a no-brainer for all but the lunatic fringe, although the parameters of monetary policy stabilisation were somewhat more debatable. Most practical criticisms of the 'consensus' were directed at the recommendations for micro-level reforms, which were open to much more legitimate debate in respect of their sequencing and of their impacts on different – and frequently entrenched – interest groups. Because of its emphasis on liberalisation of markets from governmental 'interference', the Washington Consensus became widely described as a 'neo-liberal' policy programme.

The global relevance of the Consensus was significantly boosted in the 1990s by the collapse of the Soviet Union and the emergence of a new class of former communist 'transition' countries, navigating their way towards more capitalist economic systems. Indeed, their transition was widely, if arguably prematurely, viewed as demonstrating the ultimate triumph of capitalism over communism/socialism.

Perhaps partly for this reason, but partly also because of the overlap in policy direction and content between the policy reform and structural adjustment approaches, for many on the political 'left', the Washington Consensus became ideologically tainted. At the extremes, it came to be identified as the putative instrument of global 'neo-colonialism' and 'neo-imperialism'. In the process, its appellation as 'neo-liberal' became for the left less a description and more an ideological category.

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Global policy environment. This, broadly, was the global policy environment in which South Africa began its own transition, politically from a system of white domination to full democracy, and economically from international isolation to international (re)integration.

Although pre-occupied with the sheer magnitude and complexity of the domestic political, social and economic challenges lying ahead, the ANC initially was not wholly immune to these global pro-liberalisation trends. This was evident during the transition period in two key policy areas:

- In the dying years of the Apartheid era, the then-dominant Anglo American Corporation had been promoting both public and private presentations of its 'High Road-Low Road' scenarios for South Africa's future. During the political transition period, these presentations were paralleled by sustained high-level, but low-profile, lobbying by business leaders both at home and abroad, Such 'educational' efforts proved widely influential, most notably in inducing the ANC's leadership to do the seemingly unthinkable by resiling from its hitherto unshakeable policy commitment to nationalisation of the mines, banks and other 'commanding heights' of the economy.
- The ANC also approved and implemented a significant liberalisation of foreign-trade policy, in the form of substantial reductions in import tariffs, thereby exposing some South African exporters to enhanced competition in global markets.

These developments – particularly the *volte face* on nationalisation – were of considerable significance in maintaining interest among potential investors in South Africa, both externally and internally, during the transition. Given the country's rich resource endowments, and the opportunities implicit in the need to redress the vast socio-economic and developmental backlogs that were the legacy of Apartheid, such interest levels were high. However, so also were the levels of uncertainty regarding the country's future political, social and economic stability and, hence, the future business and investment climate.

RDP. Unfortunately, when it came to the drafting of the ANC's manifesto for the first non-racial elections in 1994, in the form of the Reconstruction and Development Programme (RDP), little heed was paid either to the lessons of the development planning era or to fundamental economic realities. This is not to understate the political importance of the RDP as a unifying aspirational document for the whole polity at a time of great danger and uncertainty. Indeed, the RDP was unquestioningly embraced as the foundation stone of the post-election Government of National Unity (GNU), and it is difficult to conceive of any development plan anywhere that has carried a greater degree of political legitimacy. However, the fact remains that the RDP's greatest strength – namely that it was able to represent all things to all people – was also its greatest weakness. In less than two years after the election, the RDP had proven so overambitious, so impractical, and so flawed, both institutionally and politically, that – in the wake of a currency crisis driven by the opacity of economic policy – it was completely abandoned in all but name.

Indeed, the RDP was unquestioningly embraced as the foundation stone of the post-election Government of National Unity (GNU), and it is difficult to conceive of any development plan anywhere that has carried a greater degree of political legitimacy.

The main lessons afforded by the failure of the RDP were essentially the same as those that had undermined 'development planning' in the previous decades:

- Symbols, no matter how widespread their political support, are no substitute for real policies in promoting economic development
- The need for difficult political choices and clear identification of priorities cannot be obviated by mere rhetoric or good intentions
- Without clarity of institutional structures development plans have no prospect of successful implementation
- There are unavoidable trade-offs in seeking to address economic growth, socio-economic reconstruction and economic redistribution simultaneously
- Without economic growth, the requisite resources for implementation, including fiscal revenues, will not be forthcoming.

These factors did very little to assuage the legitimate concerns in the financial markets that South Africa would be a safe and welcoming place in which to conduct business.

GEAR. Early in 1996, the RDP was peremptorily displaced by the Growth, Employment and Redistribution (GEAR) programme. Though seldom officially acknowledged, the content of GEAR was influenced by the prior circulation of a 'big business'-promoted strategy document entitled 'Growth for All'. Driven mainly by then-Deputy President Thabo Mbeki, GEAR's main pillars echoed the substance of the Washington Consensus, in that it sought to generate growth via 'responsible' or 'conservative' fiscal and monetary policies, trade liberalisation, deregulation of markets, and privatisation of state-owned enterprises. Moreover, at first glance, GEAR appeared to be cognisant of the aforementioned political and institutional lessons to be derived from the RDP experience.

- **Macro success.** On the macro level, GEAR succeeded almost beyond expectation. It was responsible for instilling into the government – now led by a tripartite alliance comprising the ANC, COSATU and the SACP – a strong and hitherto enduring commitment to conservative monetary and fiscal policies. Unfortunately, the common sense inherent in the pursuit of macro stabilisation did not inhibit the powerful left wing within this ruling alliance from expressing trenchant and ideologically motivated opposition to these policies. To its credit, the government held to its more technocratic course, thereby earning significant 'credibility' in the financial markets.

- **Micro failure.** By contrast, in the face of determined 'internal' leftist opposition to this 'neo-liberal assault', GEAR failed badly on the micro policy front. Leaving aside the long-term policy issues – such as promoting and diversifying the country's export profile and tackling the critical shortage of skills – which were manifestly not going to be resolved within a single generation, GEAR effectively imploded in respect of two other fundamentals, namely the labour market and privatisation. In short, the labour market was subjected to more, rather than less, regulation; and an extensive privatisation programme, restyled on ideological grounds as a 'restructuring' of SOEs, and which took some five years to draft, was simply never seriously implemented.

- **Labour costs.** The Affirmative action (AA), employment equity (EE) and improved employment conditions policies, including new rules on hirings and firings, were amongst the earliest post-apartheid legislative measures enacted by the new government. This was clearly a necessary political priority, given that the labour market was the locus of some of the worst attributes of apartheid-era policies. Few would therefore seriously begrudge those already in employment, along with the newly employed beneficiaries of AA and EE, their enhanced rights and rewards. However, there can be no doubt that a primary effect of the increases in labour-market regulation was to raise the direct costs of employment. Taken together with the indirect costs associated with the displacement and loss of existing (mainly white) skills, and the lower productivity of some new recruits, these cost increases will have rendered many existing private enterprises less willing to create significant new job opportunities – and, though difficult to prove formally, probably deterring some new investments.

However, there can be no doubt that a primary effect of the increases in labour-market regulation was to raise the direct costs of employment.

- **Privatisation.** The absence of a vigorous privatisation programme, along with the virulence and radicalism of the opposition, even in principle, to the disposal of state-owned enterprises was arguably even more damaging to the investment climate.

At the time of the transition, South Africa had well in excess of 300 SOEs, accounting collectively – and startlingly – for some 50% of the country's fixed capital assets[1]. A national framework agreement (NFA), negotiated in 1995 between the government and the trade unions, permitted some restructurings in principle but afforded labour an effective veto over the decision-making process. Between 1997 and 2003, only around a score of (mostly small) operations were privatised, in most cases only partially so. A formal 'restructuring' policy framework, mandated by the cabinet in 1999 and published a year later, was intended to address the "perceived market uncertainties about the government's restructuring priorities". In practice, the policy was subsequently sidelined, and following the 2004 general election it appears to have been quietly shelved.

Two observations seem appropriate here. First, given the current dysfunctional state of several of South Africa's key SOEs, and while acknowledging that not all privatisations are desirable and successful, it seems improbable that a more substantial and principled privatisation effort would not have brought about at least some efficiency gains, along with a much-needed boost to private investment.

Second, it is doubtful whether market perceptions of the government's priorities were much improved. On the contrary, the unabated virulence and scale of the 'leftist' opposition within the ruling alliance bore testament to the fundamental internal schism about the role of the State in post-apartheid South Africa. Moreover, the ANC's tolerance of this opposition left a continuing question mark in potential investors' minds about the government's inability and/or unwillingness to assert its stated policy priorities in favour of GEAR's objectives, even though the programme remained official policy. Indeed, the ANC appeared to have accepted an implicit trade-off in which abandonment of GEAR's micro-level platform was regarded as the price to be paid for securing adherence to its macro-level objectives. If so, while such a trade-off may have worked politically (in that it kept the tripartite alliance together, albeit at times rather tenuously), it did very little for the creation of a growth-enhancing business climate.

In short, despite initial appearances to the contrary, GEAR – like the RDP before it – ultimately failed to meet the political and institutional requirements for a successful development programme.

In short, despite initial appearances to the contrary, GEAR – like the RDP before it – ultimately failed to meet the political and institutional requirements for a successful development programme. GEAR not only patently lacked political legitimacy; despite its positive rhetoric, it failed to implement the policies that it promised.

Black economic empowerment (BEE). The turn of the century brought a major new policy thrust with very substantial consequences for the domestic business and investment climates. During most of President Nelson Mandela's administration from 1994 to 1999, racial reconciliation was a primary socio-political goal, while economic policy was – as noted earlier – concentrated mostly on the elimination of labour-market discrimination instead of taking the necessary steps towards fostering a more investor-friendly and growth-enabling business environment. Except in respect of the labour market, black economic empowerment was not an official policy priority. Instead, the empowerment thrust was largely privately driven, with a range of (mostly) large and white-run corporations bestowing significant – and high profile – equity stakes on consortia of black investors who financed the deals through the medium of 'special purpose' empowerment vehicles.

While some of these schemes delivered handsome and quick returns, many of the financing structures were seriously flawed: they lacked commercial focus; they did not represent new investments; and they carried very high market risk. When global stockmarkets fell sharply in the late 1990s, a significant number of these empowerment deals suffered serious capital losses. Arguably even more damaging was the embarrassing revelation that this form of empowerment was creating a small new black capitalist get-rich-quick elite with little interest in redressing the fundamental inequalities of income and wealth in South African society.

BEE was largely put on hold from 1998 to 2001 while a Commission, chaired by Cyril Ramaphosa, sought to define BEE anew and develop a coherent vision and strategy for the project. Meanwhile, Mandela's successor, Thabo Mbeki, was elevating socio-economic 'transformation' to the highest policy priority, with particular emphasis on the empowerment of hitherto 'historically disadvantaged' South Africans in every sphere of economic life.

In 2001, Ramaphosa's commission claimed that the lack of meaningful economic participation by blacks, coupled with 'ingrained racism', constituted a 'structural impediment' to the efficient functioning of markets and, hence, to economic growth. It proposed the formulation of a comprehensive 10-year state-driven integrated national de-racialisation strategy, including a wide range of highly specific empowerment targets, including black ownership, equity, directorships, and managerial posts. There was also a call for at least 50% of all government and parastatal procurements to be reserved for black-owned suppliers.

Presumably concerned about the legislative burden implied by such an overarching response, and fearing that such heavy-handed intervention in the private sector would cause investors to take fright, the government held back from endorsing the commission's proposals. Instead it opted to pursue a more piecemeal sector-by-sector approach, through the concept of negotiated sectoral empowerment 'charters', in terms of which the relevant employers, labour representatives and government departments would reach consensus on the targets and mechanisms for increasing empowerment. Moreover, in the face of biting criticism of the narrow scope of the class of beneficiaries, the strategy was re-named 'broad-based' BEE (or BB-BEE).

In this light, it was scarcely surprising that, during the mid-2000s, when global commodity prices were booming and mining companies worldwide were investing heavily in new prospects and operations, South Africa attracted a disproportionately small share of the action.

While many (white) employers had, by this stage, come to terms with the inevitability – and the desirability – of some form of black empowerment, the scope for government intervention in the affairs of private enterprises was considerable. Firms wanting to be eligible to tender for any public sector procurement contracts had no choice but to take on black 'empowerment partners'. The issuing of licences in sectors such as media, telecommunications and gaming, the acquisition of new rights in the mining and energy sectors, and approvals of public-private partnerships became contingent on the meeting of increasingly onerous empowerment obligations.

Moreover, the road to these outcomes was a bumpy one with sometimes potentially disastrous consequences. Most notoriously, in mid-2002, excessive zeal on the part of the ministry of mines in seeking to set unrealistically high BEE targets led to panic selling of mining shares, and considerable time and effort was needed to rebuild investor confidence in the negotiations. No less damaging to confidence and goodwill, were the public excoriations by ministers and other senior (black) public figures of white business leaders who had the temerity to question the empowerment strategy or even to allude to the additional costs being imposed on firms. In this light, it was scarcely surprising that, during the mid-2000s, when global commodity prices were booming and mining companies worldwide were investing heavily in new prospects and operations, South Africa attracted a disproportionately small share of the action.

Despite several tightenings of loopholes, raisings of bars, shiftings of goalposts, and threats of 'sticks' – including, recently, proposed criminalisation of recalcitrant white employers – rather than 'carrots', BEE has patently failed even in its own terms. Twelve years after the passing of the first BB-BEE Act, criticism of the strategy remains widespread both within and outside of government. Far from stimulating investment and growth, BEE has added substantially to enterprise costs.

ASGISA/NGP/NDP. While GEAR has never been formally annulled, the past decade has witnessed the promulgation of three further plans, namely the 2005 Accelerated and Shared Growth Initiative for South Africa (ASGISA), the 2010 New Growth Path (NGP), and the 2012 National Development Plan (NDP). Undaunted by previous failures to stimulate faster growth, the ambition and lack of credibility of these documents beggars belief:

- ASGISA promised to increase the growth rate to an annual average in excess of 6% by 2010, and to halve unemployment and poverty by 2014
- The NGP aimed to create 5 million new 'decent' jobs by 2020 – current total employment is only around 8 million – thereby reducing the unemployment rate from 25% to 15%
- The NDP – which extends to no fewer than 444 pages, with a 70-page Executive Summary – envisages the creation of 11 million new jobs, and an economy close to full employment by 2030. As with the RDP, the NDP has attracted formal support from most sections of public life including the ANC, but crucially not from the 'left' within the tripartite alliance. This fact threatens to derail the programme – which otherwise contains largely sensible and unobjectionable policy recommendations – and will likely render it incapable of implementation.

The issue of corruption, which is central to the business environment, offers an instructive example: from GEAR through to the NDP, every plan has contained a strong commitment to combating corruption. … Instead, the breadth and depth of corruption, especially (though not only) in the public sector, has become increasingly endemic.

Adverse investment climate. Apart from their excessively ambitious targets, and concerns about their effective political backing, all these plans have lacked one crucial element, namely a credible commitment to creating an investor-friendly business environment. The issue of corruption, which is central to the business environment, offers an instructive example: from GEAR through to the NDP, every plan has contained a strong commitment to combating corruption. Yet the rhetoric has never been translated into effective policy. Instead, the breadth and depth of corruption, especially (though not only) in the public sector, has become increasingly endemic.

More generally, there is a seeming aversion to, even hostility towards, business and enterprise. It is true that there have been occasional references – in budget speeches and the like – to the important economic role played by the private sector as a partner in meeting the country's economic challenges. However, looking back over the past 21 years, it is difficult to recall many – if any – instances of government ministers, or other senior political figures within the tripartite alliance, standing up for the rights and needs of private businesses in generating growth, employment and incomes in the wider economy. Instead, the private sector is routinely criticised for its collective 'sins' of omission and commission in its conduct.

One of the private sector's most neglected needs is for greater certainty about the policy environment. Instances abound of policy statements being made, only to be subsequently 'clarified' or amended. More fundamentally, some legislation has been passed but not promulgated because of gross deficiencies in its formulation.

SMEs. These facts highlight one of the greatest ironies in South Africa's hitherto disappointing search for growth. Evidence from around the world demonstrates conclusively that smaller businesses ('SMEs') are a primary source of output and employment growth. During the Apartheid era, black-owned SMEs were a rarity, at best discouraged or at worst disallowed by a host of restrictive laws and regulations. It was a reasonable expectation that the end of Apartheid would lead to a veritable explosion in black entrepreneurship within the SME sector, strongly lifting output and employment growth rates. However, this outcome has clearly not materialised.

Since there has been no evident shortage of SME finance collectively from government, big business and aid agencies, there can be only two possible explanations for this conundrum: either black South Africans are inherently less entrepreneurial than other nations; or growth in the SME sector is still being artificially inhibited by restrictive policy and regulatory environments. The former explanation seems highly improbable; given the ANC's high propensity to restrict and regulate economic activity in general, the latter explanation is highly probable.

This situation should provide the country's policy-makers with substantial food for thought. Instead of producing periodic grand plans and visions with near-zero prospects of implementation and realisation, and imposing ever more restrictions and obligations on business, they might usefully consider sweeping away many of the measures that are evidently holding back the growth of the SME sector. In short, let them stop digging ever deeper into their slow-growth hole, and unleash instead the latent power of smaller enterprises to generate truly broad-based and real black empowerment in the form of jobs and incomes for the masses. Once that outcome has been achieved, there will be time enough – and reason enough – to regulate their behaviour more closely.

Ten Things to Know About Inequality

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Here's the list:

1. ***One has to be willing to grapple with large normative issues when thinking about inequality.***

Consider the parable of the labourers in the vineyard: some hired early in the morning, some at the third, at the sixth, at the ninth and at the eleventh hour. At the end of the day, all are paid a penny, with predictable results:

> And when they received it, [the first hired] murmured against the goodman of the house, saying, these last have wrought but one hour, and thou hast made them equal to us, which have borne the burden and the heat of the day. But he answered one of them and said, Friend, I do thee no wrong: didst not thou agree with me for a penny? … Is it not lawful for me to do what I will with my own? (Matt xx: 11-15)

From a Kingdom of God perspective, Jesus is completely unconcerned about inequality in the hourly wage rate.

Or consider the relative treatment of men and women, about which there is simply no consensus across the globe. A man stepping aside to let a woman enter a room first is politeness in one culture and sexual harassment of the first degree in another. And then, there's the *burqa*.

It is not necessary to become an expert in all religions and philosophies in order to enter a debate about inequality. But it is necessary to keep asking oneself: What is bothering me here, and why? Which forms of inequality should not happen? To which forms of inequality may I be indifferent? And are there any forms of inequality that I should support? To the last question, a positive answer has been returned by people as different as William Blake ("One law for the lion and the ox is oppression"[1]), Friedrich Nietzsche (morality as an expression of the cunning resentment of the weak) and John Rawls (inequality is justified if it leads to improvement of the position of the least well off).

The accumulation of heterogeneous facts about inequality is not by itself sufficient to make a useful contribution to an ongoing debate. Normative clarity is needed to sort through, order and present factual material in an illuminating way.

2. ***When describing inequality, one must always be in a position to answer the question: inequality of what?***

In the economic sphere, there are a number of variables of interest and they are all different:

- Wealth, conceived of as net worth;
- Earnings among employed people;

- Household income before taxation and public expenditure;
- Household income after taxation and public expenditure;
- Consumption;
- The share of gross value added taking the forms of (a) compensation of employees or (b) property income: the shares accruing to labour and capital;
- In segmented societies, income accruing to the segments. In South Africa, racial shares of income are salient.

One may have economic, sociological and political theories relating some of these variables and there are accounting relationships between them, but confusion abounds unless one keeps straight the conceptual basis of what is being measured.

There are other issues which may have economic salience. Take personal beauty, for example. While aestheticians have argued for centuries about what beauty is, most people know that some are more beautiful than others, a fact only partly mitigated by all the plastic surgeons and orthodontists in the world. Studies tend to show that beautiful people tend to earn more than ugly people with the same productive characteristics.[2] Should beautiful people be subject to a special tax in the interests of equality? By way of a thought experiment, it has been suggested that if we could determine economically valuable personal endowments at birth, these should be taxed as lump sums to be paid off over a life time. Such a tax would avoid the inefficiencies of the taxes we are used to, especially the asymmetric treatment of labour, whose product is taxed, and leisure, which is not taxed.

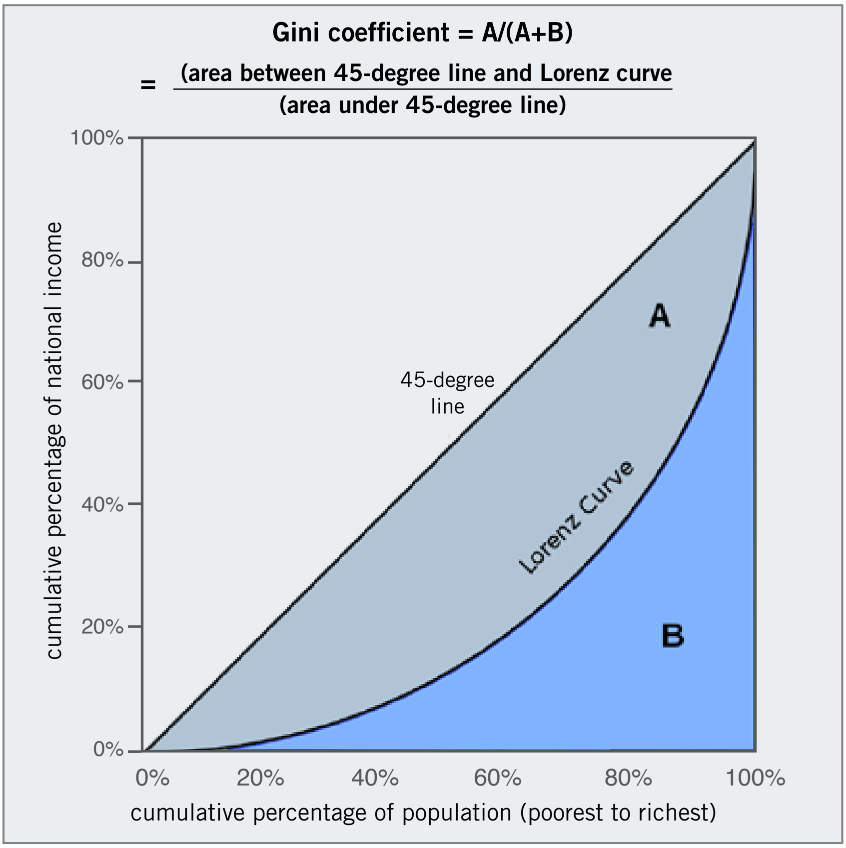
An important distinction is between equality of opportunity and equality of outcome. Outcomes are easier to measure than opportunities, but methods for assessing equality of opportunity have been developed in recent years.

An important distinction is between equality of opportunity and equality of outcome. Outcomes are easier to measure than opportunities, but methods for assessing equality of opportunity have been developed in recent years[3]. At the normative level, there is a school of thought called 'luck egalitarianism' which argues as follows: People should be fully compensated for differentials in fortune over which they have no control. But they should bear fully the consequences of the choices they freely make. Luck egalitarians are therefore interested in equality of opportunity. However, one can argue for equality of outcome on two grounds. The first is that of 'hard determinism'. This holds that ignorance, fecklessness and the like are not freely chosen but are themselves determined, so that decisions could not have been otherwise. And the second is that of 'merciful treatment'. If an ignorant or feckless decision leads to great hardship, the punishment is too great for the crime.

3. *Inequality and poverty are usually taken to be distinct concepts. Yet both can be measured in either absolute or relative terms.*

The most widely used measure of inequality is the Gini coefficient. It is based on the Lorenz Curve, which plots the proportion of the total income of the population (y axis) that is cumulatively earned by the bottom x% of the population (see diagram). The line at 45 degrees thus represents perfect equality of incomes. The Gini coefficient can then be thought of as the ratio of the area that lies between the line of equality and the Lorenz Curve (marked A in the diagram) over the total area under the line of equality (marked A and B in the diagram); i.e., G = A / (A + B).

Figure 1 – The Gini coefficient



The Gini coefficient is a relative measure, which varies between zero and one. The Gini coefficient for the distribution of household income as measured by the South African Population Census in 2011 was 0.68. Suppose the income of every household had doubled overnight. Then the Gini coefficient would have remained at 0.68, since the relative positions of households would have been preserved. On the other hand, had an absolute measure of inequality been used, inequality would have risen. Suppose the gap between two households C and D had been R1 000 per month before the doubling. After doubling, the gap would have risen to R2 000 per month. Absolute measures of inequality have been thought out, but they are virtually never used in practice.

The simplest measure of poverty in a society is the percentage of households classified as poor. The World Bank estimates that 14.5% of the world's population was poor on this definition in 2011. The ratio for sub-Saharan Africa in the same year was 48.6%.

On the other hand, poverty lines are often defined in absolute terms, say 1.25 US dollars per person per day, or purchasing power parity equivalent in other countries. A household is regarded as poor if it has an income of less than two dollars per day for every member. The simplest measure of poverty in a society is the percentage of households classified as poor. The World Bank estimates that 14.5% of the world's population was poor on this definition in 2011. The ratio for sub-Saharan Africa in the same year was 48.6%.

On the other hand, it is perfectly possible to define poverty in relative terms and it is frequently done. The European Union, for instance, regards a household as poor if per capita income in it is less than 60% of the median per capita household income. The justification for this is that low relative income leads to social exclusion, since poor families cannot afford to participate in activities that most of the other members of the society can undertake. If 'society' is taken to be the 'nation', it follows that a poor household in Germany may not continue to be (relatively) poor if it were to migrate to Bulgaria while keeping its purchasing power parity income constant. Its position would not change in relation to an absolute poverty line.

Thomas Piketty, in his much discussed *Capital in the Twenty-First Century*, directs our attention from summary measures of inequality across the entire wealth distribution towards what is going on the top 1% or 0.1% of it. He reminds us more than once of Balzac's Pere Goriot who sacrifices everything so that his two daughters can occupy stations at the top of French society. He has his reasons, since he wants to explain the growing concentration of wealth. But his analysis plays straight into the view that one hasn't lived unless one has consumed in a way that only the richest can sustain. It is a view that has its South African adherents. It betokens a certain hollowness of identity. And it becomes scary when people are willing to corrupt and kill in support of it.

It is a view that has its South African adherents. It betokens a certain hollowness of identity. And it becomes scary when people are willing to corrupt and kill in support of it.

4. The reasons for inequality, however measured, are multiple, complex, interacting, imperfectly understood and hard to weigh against each other.

Consider the following abstract from a National Bureau of Economic Research Working Paper[4] on inequality in the United States:

> We conduct a systematic empirical study of cross-sectional inequality in the United States, integrating data from the Current Population Survey, the Panel Study of Income Dynamics, the Consumer Expenditure Survey, and the Survey of Consumer Finances. In order to understand how different dimensions of inequality are related via choices, markets, and institutions, we follow the mapping suggested by the household budget constraint from individual wages to individual earnings, to household earnings, to disposable income, and, ultimately, to consumption and wealth. We document a continuous and sizable increase in wage inequality over the sample period. Changes in the distribution of hours worked sharpen the rise in earnings inequality before 1982, but mitigate its increase thereafter. Taxes and transfers compress the level of income inequality, especially at the bottom of the distribution, but have little effect on the overall trend. Finally, access to financial markets has limited both the level and growth of consumption inequality.

And this is not all, as the authors observe:

> One branch of the literature has focused on the wages of full-time men. This work aims to describe the evolution of dispersion in productivity and skills, and to trace its macroeconomic sources to changes in technology, trade, or institutions. Another branch of the literature has focused on labor supply, studying, for example, how changes in female participation affect measures of economic inequality. Other authors have emphasized that the extent to

> which increasing dispersion is permanent or transitory in nature has important implications for policy and welfare, and have investigated income dynamics. This shift from studying the sources of rising inequality toward exploring its welfare implications continues with papers investigating the dynamics of inequality in household consumption, a more direct measure of well-being.

So figuring it all out is no walk in the park, even in the United States, with all its data and skilled analysts.

And they conclude:

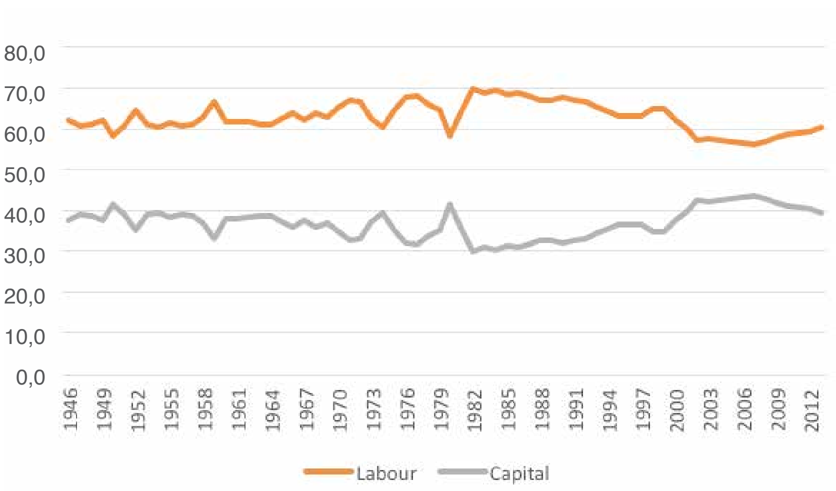
> Endogenous labor supply and government redistribution play especially important roles in shaping the dynamics of inequality. Future research based on structural models with heterogeneous agents and incomplete markets should therefore prioritize incorporating these features.

So figuring it all out is no walk in the park, even in the United States, with all its data and skilled analysts. South Africa is less well endowed. Students of income distribution here have found that the State does not collect information of sufficient quality to allow reliable inferences to be drawn, despite repeated government insistence about the centrality of the inequality issue. can.

5. ***In the debate about Thomas Piketty's and Simon Kuznets's views about capital's share of net value added, it is Kuznets which fits the South African experience.***

Figure 2 presents the shares of labour (compensation of employees) and capital (net operating surplus) in net value added at factor costs between 1946 and 2013.

Figure 2 – Share of labour and capital in net value added



The share of labour fluctuates around a mean of 63% and the share of capital around a mean of 37%. The share of labour tends to increase in a recession and decline in an upswing, since wages adjust more slowly than prices. Accordingly, gross operating surplus takes a hit when demand is weak and recovers in an upswing.

Kuznets believed that a roughly constant share of labour and capital was one of the 'stylised facts' that growth theory had to explain and which was a feature of the Solow growth model articulated in the 1950s[5]. Kuznets's view was dismissed by

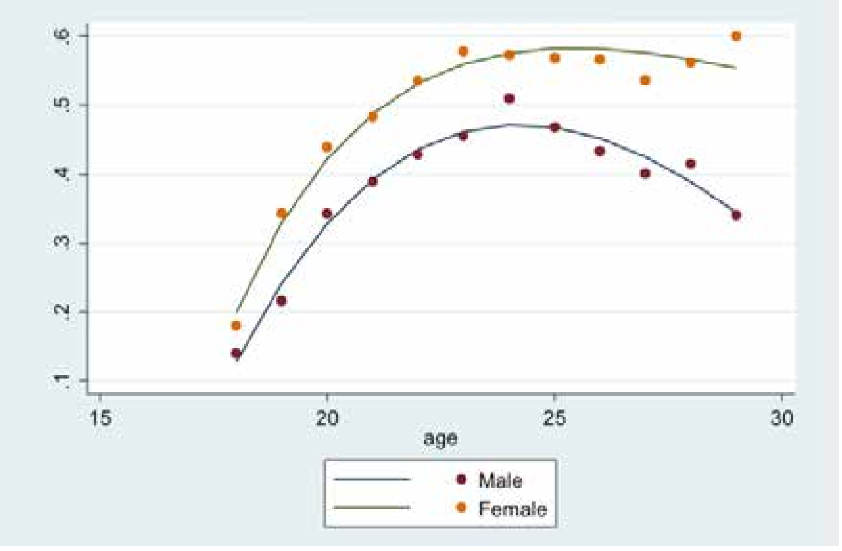
Piketty as a fairy tale, masking a secular tendency for the share of capital to grow. Some might point to the rise in capital's share from 1982 to 2007 as evidence for Piketty's view, but (a) capital's share was at its lowest level during the postwar period in 1982, (b) capital's share has fallen since 2008 and (c) capital's share in 2013 was close to the 1946 level. There is no secular erosion of labour's share leading to a long term increase in inequality in South Africa.

6. The structure of the labour market is a major determinant of inequality

The South African labour market has been worked over extensively during the last century by special interests with political clout and is inefficient as a result. Specifically,

- The employment ratio[6] is considerably lower than the median for any countries with per capita income in the range US $5 000 – 8 000 in 2013[7]. The median for these countries was 55%. South Africa's employment ratio was 39%.
- The corollary is very high unemployment. The Quarterly Labour Force Survey estimated unemployment at 25.4% in the third quarter of 2014. If one adds in discouraged workers (those who have given up looking for work), the rate rises to 32.2%.
- The situation is particularly bad among the young. A NEET is defined as a young person not in employment, education or training. Figure 3 graphs the proportion of NEETS by age in September 2011. Figure 3 shows the slow absorption of young men into employment, with NEETS constituting over 40% of the population at age 24. The position is worse for young women, with NEETs constituting nearly 60% of the population in their late 20s. The youth wage subsidy should make a useful contribution in raising absorption into employment among the young.
- The Extended Public Works Programme offers employment at wages between R70 and R130 per day. The size of the programme is limited by the funds available and the ability of the three tiers of government to develop shelves of labour intensive projects. There are plenty of people willing to work for these wages.

Figure 3 – NEETs



At present, the labour market protects the position of some workers by shutting out others.

Limited competitiveness in the product market worsens unemployment. Professor Johannes Fedderke[8] points out that markups are high in South Africa. Worse, they are unevenly distributed throughout the economy. Workers can share in monopolistic and oligopolistic rents and negotiate up wages in leading firms, and these wages are then extended to all in the same industry. This serves to inhibit employment by small firms which, in other countries, are a major source of employment, as does elaborate procedures for dismissals. Advice from organizations such as the World Bank, OECD and IMF, as well as top economists who have studied the South African economy is to get rid of extension.

Growth is weak and the wage elasticity of demand for unskilled labour is high. Intensification of shut out will be the inevitable result.

Under these circumstances, the wisdom of extending minimum wages in South Africa at present is questionable, even though such measures are under active consideration in the United States and Europe. A rise in minimum wages is most likely to improve equality when the wage elasticity of the demand for labour[9] is low and the economy is growing strongly, so that people thrown out of work are soon reabsorbed. Both conditions are satisfied in the United States at present. Neither is in contemporary South Africa. Growth is weak and the wage elasticity of demand for unskilled labour is high.[10] Intensification of shut out will be the inevitable result.

7. ***The inability of the educational system to turn uneducated and untrained people in educated and trained people in sufficient numbers is a major source of inequality.***

Table 1 shows that unemployment rates among adults of prime working age vary considerably by education.

Table 1 – Unemployment rates by level of education
Third quarter 2011
Ages 35 to 49

	Men	Women
Up to complete general education	27.2%	27.2%
Incomplete further education	21.1%	26.8%
Complete further education *	14.0%	17.3%
Higher education	5.7%	5.4%

Note: *Complete further education does not imply a pass in the relevant examination at the end of the phase. It merely refers to reaching the highest level in the system

There is effectively full employment among those having completed a higher education qualification, with unemployment rising as one descends the educational hierarchy.

From an economic point of view, education and training should be undertaken until the marginal private rate of return drops to the rate of return on other investments of similar risk. There is no incentive on the part of any individual to pass this point, which occurs at different stages for different people. The position is complicated by the facts (a) that the social rate of return is different from the private rate (my literacy is worth more in a generally literate society) and (b) that much education is subsidized by the State. Judged by this criterion, the South African education and training system is deficient because:

- primary and secondary schooling are inefficient. Study after study has shown that 'time on task' is on average considerably below the official standard. Coverage of the curriculum is slow and incomplete, teacher knowledge is lacking (especially in mathematics and science), schools are disorganized and accountability has largely been lost.
- the vision of multiple pathways through further education and training (post Grade 9) has been very imperfectly implemented. Senior secondary schooling remains the dominant path and many learners enter Grade 10 unequipped to complete the national senior certificate curriculum. High rates of repetition and drop out ensue, with fewer than 50% of Grade 10 entrants emerging with a pass in the NSC. Enrolments have increased in further education and training colleges, but without a commensurate increase in resources. Moreover, many learners drift into technical education, having failed in the school system, rather than as a result of a conscious decision taken at the end of Grade 9 (or Grade 12 for more senior technical qualifications). The reform of industrial training undertaken more than a decade ago has not worked well across the board. And there is no short cycle, unit standard and practically based vocational education system for those who have emerged from Grade 9 functionally illiterate and innumerate.

The upshot of all this is supernormal rates of return for the minority of people who succeed in the educational system and high unemployment for everyone else, with clear adverse consequences for inequality.

- The aim is to have 1.6 million university students by 2030, up from just under a million at present. This goal can be reached, but all the main actors would have to do things they are not currently inclined to do:
  - i. the Treasury needs to subsidize universities at a somewhat higher rate (at 0.9% of GDP),
  - ii. the Department of Higher Education and Training needs to encourage private higher education and to fix the National Student Financial Aid Scheme,
  - iii. the universities need to move a trimester rather than a semester system and to increase third stream income (i.e. income from sources other than fees and the state subsidy), and
  - iv. students will have to accept that it will get harder to find a university place.
- The constraints on effective education and training are all the more serious because the demand for labour has become steadily more skill intensive since the 1970s.

The upshot of all this is supernormal rates of return for the minority of people who succeed in the educational system and high unemployment for everyone else, with clear adverse consequences for inequality. This shows up as high ratios of (a) earnings at the 50th percentile to earnings at the 10th percentile and (b) earnings at the 90th percentile compared with earnings at the 10th percentile in wage/salary/commission formal employment. Table 2 compares the ratios with other countries whose 90-10 ratio is above seven.

Table 2 – Earnings percentile ratios: high wage inequality countries

Country	Date	50-10	90-10
South Africa	2013	3.8	14.2
Brazil	2013	2.8	7.2
Colombia	2013	2.2	9.1
India	2012	2.8	7.2
Indonesia	2013	2.4	9.7
Latvia	2013	2.5	9.2
Malaysia	2012	4.0	9.3
New Zealand	2010	2.2	10.3
Peru	2012	2.2	11.5
Turkey	2012	3.4	7.1
United Kingdom	2013	2.1	10.9

8. Social disorganisation worsens inequality.

Start with the nuclear family as depicted in 1950s American primers: Mom, Pop, Dick and Jane, and their dog, Spot (your waitron can substitute halaal, kosher or other culturally preferred names). Gramps and Granma, having saved prudently throughout their working lives, are self-sufficient in retirement. Mom and Pop's siblings are all in nuclear households of their own, except Bob who seems happy enough in San Francisco. That is about as good as it gets as far as household income distribution goes: two adults looking after two children with no other claims on household income.

Of course, it wasn't like that throughout American society in the 1950s. Rougher conditions were to be found in the projects[11]. And things are certainly very different in contemporary South Africa, as Table 2, drawn from the 2013 General Household Survey, shows. Table 3 looks at the available information from the point of view of children, of whom there were 21.7 million under the age of 21[12].

Table 3 – Position of children in South Africa, 2013

Panel A – Orphans

Both parents definitely alive	79.0%
Mother only definitely alive	12.2%
Father only definitely alive	3.7%
Both parents definitely dead	4.6%
Unknown	0.5%
Total	**100.0%**

Panel B – Parents in same household

Both parents in household	42.7%
Mother only in household	37.5%
Father only in household	3.0%
Neither in household	16.8%
Total	**100.0%**

Panel C - Relationship to household head

Head/Acting head	0.9%
Husband/wife/partner of head	0.5%
Son/daughter/stepchild/adopted child	
Male head	33.1%
Female head	19.6%
Brother/sister/stepbrother/stepsister	2.2%
Grandchild/great grandchild	
Male head	11.4%
Female head	22.5%
Other relative	9.2%
Non-related persons	0.7%
Total	**100.0%**

Panel D – Income support

	No social grant	With social grant	Total
Without wage/salary/ commission/business	2.5%	28.4%	30.9%
With wage/salary/ commission/business	22.7%	46.4%	69.1%

Panel A shows that nearly 80% of children have both parents alive. However, only 43% of children in the same household as both their mother and father. A further 37% live in a household containing only their mother and 3% in a household containing their father only. One sixth of all children do not live with either parent.

53% of children are sons, daughters, stepchildren and adopted children of the household head. One third of children live in a household headed by a grandparent, though one or both parents may also be present. 9% are other relatives of the household head. Nearly 1% of households are child headed.

Over 30% of children live in households without any private income from wages, salaries, commissions or businesses. Most of these children live in households with one or more social grants, but one in forty children live in households with no reported income at all. Less than a quarter of children live in households which depend only on private income. Nearly half of children live in households which receive private income augmented by social grants.

These statistics indicate the limits of the extent to which children participate in their parents' incomes, though in some cases remittances will be sent from parents living outside the households containing their children. Inequality between children is something children can do little, if anything, about.

One might note, in passing, that there is an economic literature on the distribution of income within individual households, but little is known about this topic in South Africa.

9. The distribution of income is more primary than the distribution of wealth

This is for two reasons:

- While great fortunes are different[13], most people hold wealth in order to smooth consumption over their lives. In the early stages of adult life, people may borrow to finance education, so that their net wealth is negative. As they start to earn, they put aside money to repay debt, finance rainy days and their retirement. Their wealth accumulates, reaching a maximum at retirement and then starts to decline. Some people may plan bequests, and their heirs are in any case jointly entitled to any estate left at death. It follows that, if there is an unexpected wealth windfall, a person will revise upward their planned consumption path and liquidate part of their wealth to finance it. This explains the tendency of black economic empowerment beneficiaries to liquidate wealth transfers. Poorer people will probably contract their time horizons to age 60, when the state old age pension becomes available, and may adopt an even shorter time horizon, given the excitement of unprecedented consumption opportunities. To this extent, wealth transfers do not stick and the wealth ends up in the hands of people willing to hold it. The life cycle theory also implies that the distribution of wealth at any point in time tells one a limited amount, because two people may have exactly the same lifetime consumption, but may have different levels of wealth because there is a difference in age.

Distribution of wealth is always more unequal than the distribution of income, which is more unequal than the distribution of consumption.

- Distribution of wealth is always more unequal than the distribution of income, which is more unequal than the distribution of consumption. Moreover, there are surprising facts about the distribution of wealth across countries. Credit Suisse publishes estimates of the distribution of wealth. Table 4 sets out estimates of the share of the top decile (10%) in total wealth 2014 for 46 countries. Bear in mind that estimates of wealth are more uncertain than estimates of income and the considerations above.

Table 4 – Share of the top decile in total wealth, 2014

Less than 60%	Australia, Belgium, Canada, Finland, France, Greece, Ireland, Italy, Japan, Netherlands, New Zealand, Portugal, Singapore, Spain, United Kingdom [15]
Above 60% and less than 65%	Austria (63.8%), China (64.0%), Germany (61.7%), Korea (62.8%), Mexico (64.4%), Poland (62.8%), Taiwan (62.0%), United Arab Emirates (60.4%) [8]
Above 65% and less than 70%	Chile (68.9%), Colombia (65.2%), Czech Republic (67.3%), Denmark (67.5%), Israel (67.3%), Norway (65.8%), Saudi Arabia (66.4%), Sweden (68.6%) [8]
Above 70%	Argentina (71.8%) , Brazil (73.3%), Egypt, Hong Kong, India, Indonesia, Malaysia (71.8%), Peru (73.3%), Philippines, Russia (84.8%) , South Africa (71.7%), Switzerland (71.9%), Thailand, Turkey (77.7%), United States (74.6%) [15]

Notice:

- how high the concentration is in three Scandinavian countries (Denmark, Norway and Sweden) with extensive welfare states, and

- that the concentration is lower in South Africa than either Switzerland or the United States.

All this said, it cannot be denied that resentment will build up in societies where the median wage in stagnant or declining, but where the positions of the wealthy improve. A sign of the times is a poll conducted at the annual meeting of the American Economic Association in December 2014, where participants were asked to decide what was more important for contemporary investigation. The majority decided that the distribution of wealth was more important.

10. The Gini coefficient may not have changed much over the last forty years. However, much has changed as far as racial shares of personal income are concerned.

Professor Michael McGrath[14] estimated that, in 1970, Black people received 20% of personal income, Coloureds and Asians 10% between them and Whites 70%. These proportions were practically constant between 1917 and 1970.

No longer. Table 5 sets out estimates from the 2011 Population Census. Since nearly all households in South Africa remain racially homogenous, households can be classified by the race of the household head.

Table 5 – Racial shares of personal income, 2011

	Racial share	Average household income per year (Rand)	Household income index (All=100)	Gini coefficient within group
Blacks	46.2%	76 709	60	0.615
Coloureds	8.0%	131 970	103	0.622
Asians	5.9%	292 090	227	0.658
Whites	39.3%	427 057	332	0.622
Unspecified	0.7%			
All	**100.0%**	**128 477**	**100**	**0.681**

The "within group" Gini coefficients are similar, Asians having a slightly higher level than the other groups, and they are nearly as big as the overall Gini coefficient. White households have average incomes that are 3.3 times the overall average and the corresponding figure for Asian households is 2.3. The average Coloured household is virtually at the overall average and the average Black household has income 40% below the overall average.

Conclusions

The main conclusions are these:

1. One has to be clear about one's normative concerns and about which aspects of inequality one want to measure.
2. The explanation of inequality is always complex and not fully understood anywhere, and in South Africa, in particular.
3. Major sources of household income inequality in South Africa are (a) the functioning of the labour market, (b) the educational system and (c) social

disorganisation. Next to these, the distribution of wealth plays a part, but a relatively minor one.

4. Racial shares of personal income have altered a great deal in the past forty years.

Focus, caution and careful analysis are all required when thinking about inequality. Uncritical endorsements of fashionable positions will not do.

FOOTNOTES

1 Like many of Blake's epigrams, this one rewards pondering

2 Thus Bertolt Brecht and Kurt Weill's satirical sung ballet, The Seven Deadly Sins, contains the following lines:
She shows off her small white behind/ worth more than a small factory. (Easily true in 1933 when the production first appeared.)

3 By among others, the World Bank

4 Jonathan Heathcote, Fabrizio Perri and Giovanni L Violante, Unequal we stand: an empirical analysis of economic inequality in the United States, 1967-2006, National Bureau of Economic Research Working Paper 15483, November 2009

5 Both Simon Kuznets and Robert Solow were eminent American economists in that era

6 The employment ratio is employment divided by the population age 15 and over

7 South Africa's per capita income in 2013 was US $ 6 618

8 Professor Fedderke is a leading South African econometrician

9 The wage elasticity of the demand for labour is the percentage drop in employment in response to a one per cent increase in the wage. So if a 1% wage increase results in a 0.2% drop in employment, the elasticity is 0.2.

10 Professor Fedderke cites an elasticity estimate of 2.2 for unskilled labour.

11 The American term for government owned rental housing

12 Children are taken to be under the age of 18. But this is unrealistically low when considering the dependence of young people on their households. The average age of leaners in Grade 12 is almost 20, for instance.

13 In so far as great fortunes are transmitted down generations, each generation acts as a curator of this wealth, drawing down some of the proceeds to finance consumption.

14 Formerly professor in the Department of Economics at the University of KwaZulu-Natal

Wages in Post-apartheid South Africa

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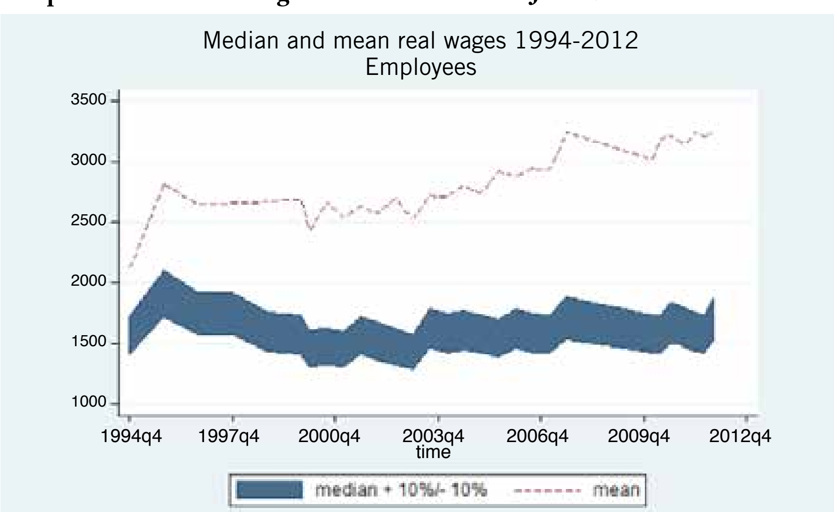
South Africa entered the post-apartheid era with one of the most unequal income distributions in the world. Inequality in wages was a key driver of overall inequality. Redistribution was one of the top priorities of the new government. To that end several pieces of legislation were introduced to reform the labour market, including the Labour Relations Act (1995), the Basic Conditions of Employment Act (1997) and the Employment Equity Act (1998). Institutions like the National Economic Development and Labour Council (NEDLAC) were introduced to give unions a stronger say in policy debates and the establishment of the Commission for Conciliation, Mediation and Arbitration (CCMA) was intended to regulate labour disputes.

Rising wage inequality 1994-2012

After nearly two decades of such interventions intended to address inequality what, if anything, has been their impact? Wittenberg (2014) has provided evidence that inequality among wage earners has actually widened over the post-apartheid period. The top tail of the earnings distribution has moved away from the median, so that the gap between the median and the earner at the 90th percentile has increased sharply. As a result the gap between average wages and median wages has also increased. This is shown graphically in Figure 1: The band of incomes around the median wages (per month) when compared to the mean. Figures are all deflated to June 2000. The thick band in that figure is the range of wages lying 10% either side of the median. It is clear that median wages have been fairly static (in real terms), while average wages have increased noticeably over the period.

Figure 1: The band of incomes around the median wages (per month) when compared to the mean. Figures are all deflated to June 2000

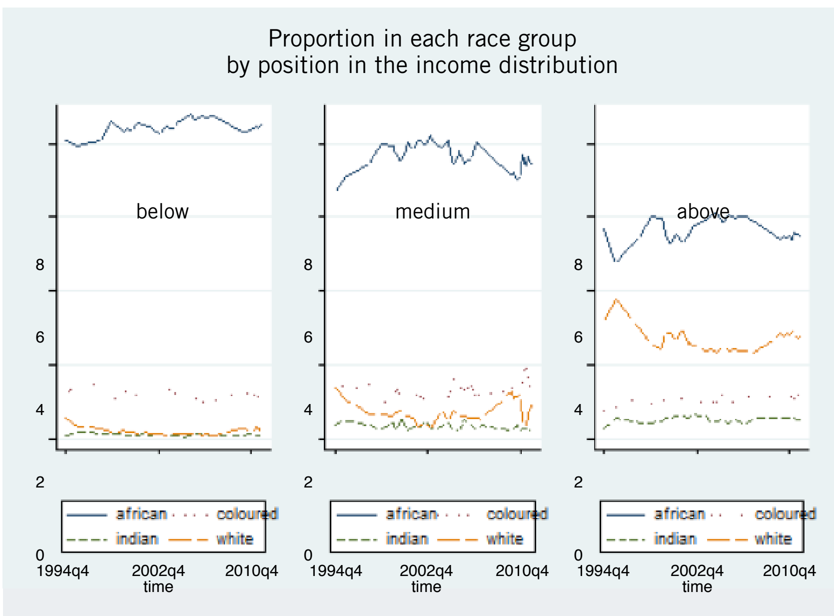


One of the key questions that one needs to confront when dealing with pictures like Figure 1, is whether or not there have been compositional changes in the labour force that have resulted in these changes. If, for instance, there had been strong growth in employment particularly among low income workers, this would clearly result in a lowering of the median income overall. In this paper we raise the question to what extent the character of workers at the bottom of the distribution, around the median or at the top have changed over the post-apartheid period. To that end we divide the overall distribution of employees into three groups: a) those earning below 90% of the median, b) those earning between 90% of the median and 110% of the median, and c) those earning above 110% of the median. In terms of Figure 1, we are contrasting a) those below the blue band, with b) those falling into it and c) those lying above it. All our analyses are conducted on the PALMS dataset (Kerr, Lam and Wittenberg 2013) which assembles all the Statistics SA datasets with labour market information.

Demographic characteristics of low, median and high wage earners

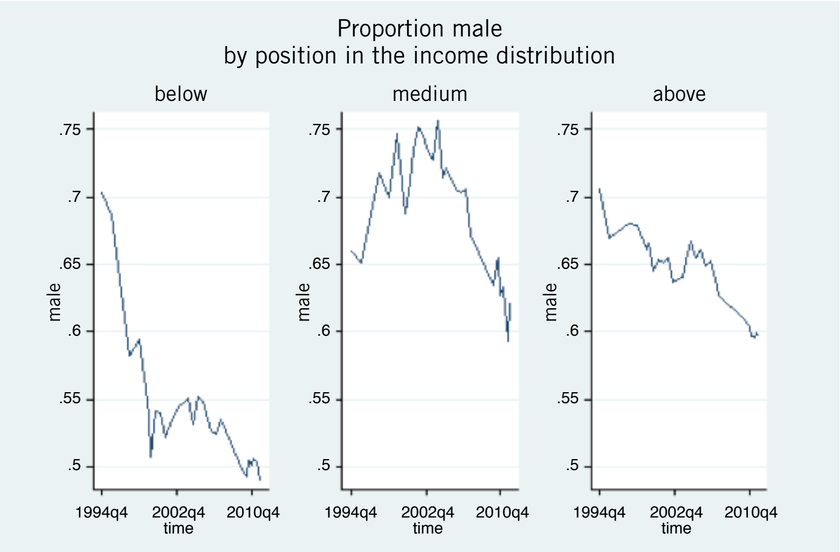
In Figure 2: Racial breakdown of those earning below, at and above the median we show the racial breakdown of the three groups and its evolution over the post-apartheid period. It is clear that in this respect not much has changed – the proportion of African South Africans in the bottom earning group remains over 80%. It is also around 80% of the group in the band around the median and has stayed just below 60% of the group earning above the median.

Figure 2: Racial breakdown of those earning below, at and above the median



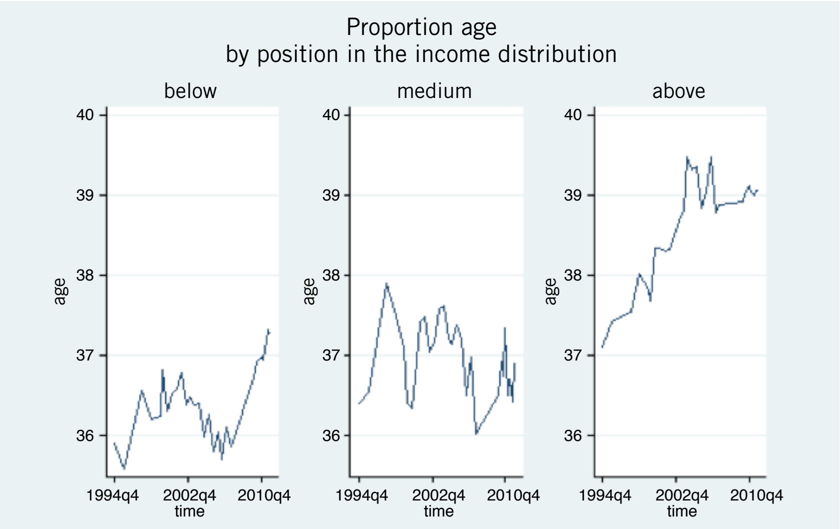
The gender composition of each of the groups has changed, however, as more women have entered the labour force. It is evident, from Figure 3: Gender composition of low, median and high wage earners, that there are more women among the low wage earners than there are higher up the income distribution.

Figure 3: Gender composition of low, median and high wage earners



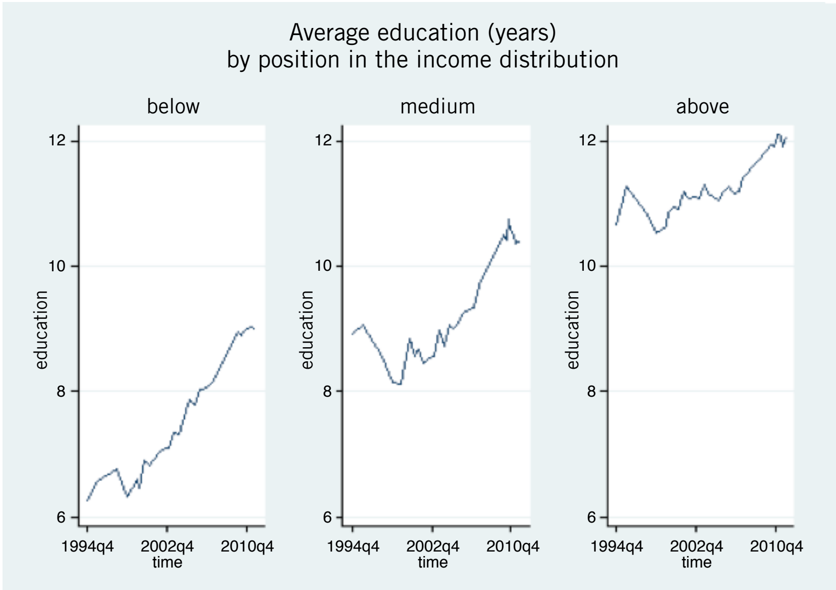
The age distribution, shown in Figure 4: Average age among low, median and high wage earners suggests that there haven't been major compositional shifts among low and median earners, but that the group that earns above the median wage is a bit older at the end of the period than at the beginning. It suggests that experience may be more heavily rewarded in the more recent past.

Figure 4: Average age among low, median and high wage earners



Another dimension which shows strong changes over this period is education, as shown in Figure 5: Average education levels among low, median and high wage earners. This graph is interesting for many reasons. Firstly, it shows a strong correlation between education levels and ones' position in terms of income distribution. The average education level of individuals at the bottom of the distribution is clearly below those at the median who are, in turn, below those at the top. Secondly, there have been strong increases in attainment in all these groups over the last twenty years, with the biggest gains at the bottom. The fact that this has not translated into a narrowing of the gap between the median and those at the top indicates that the returns to higher education are very strong and have, perhaps, even increased.

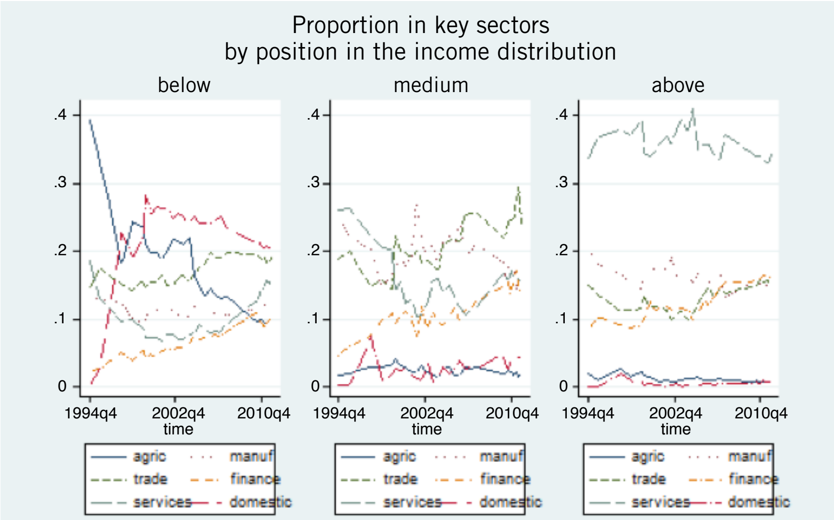
Figure 5: Average education levels among low, median and high wage earners



Economic and labour market characteristics of low, median and high wage earners

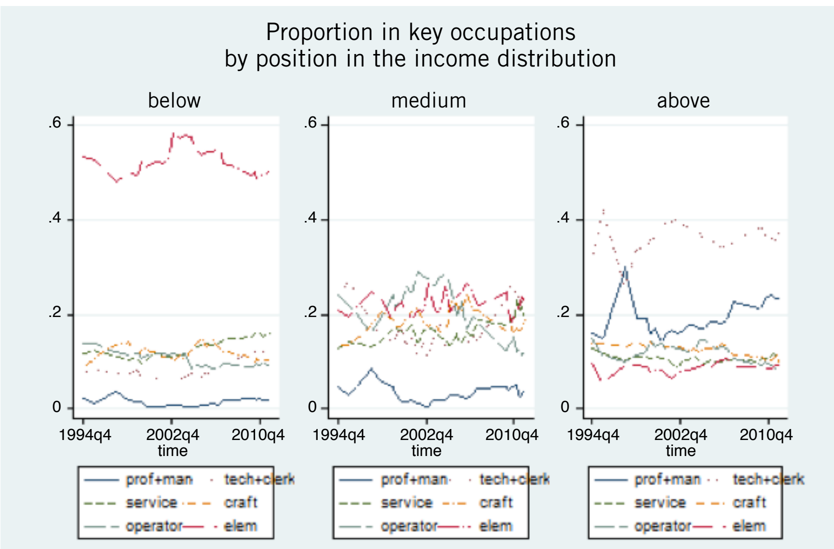
We can also investigate the characteristics of the occupations and the sectors in which low, median and high wage earners fall. The first piece of evidence in that regard is provided by Figure 6: Breakdown of low, median and high wage earners by sector. The "modal" sector for the low wage earners was agriculture at the beginning of the period and it was domestic service at the end. Workers in the retail sector ("trade") are also well represented among the low wage earners. The "modal" sectors for the median earners are manufacturing and retail trade, while service workers are the single largest group among the high wage earners. Interestingly the strongest compositional shifts, evident in this graph, is the overall drop in agricultural work, although there is some doubt whether the levels in the early October Household Surveys are accurately estimated. Workers in the financial sector make up an increasing proportion of all three groups, suggesting that the expansion of this sector has not added only high paid jobs.

Figure 6: Breakdown of low, median and high wage earners by sector



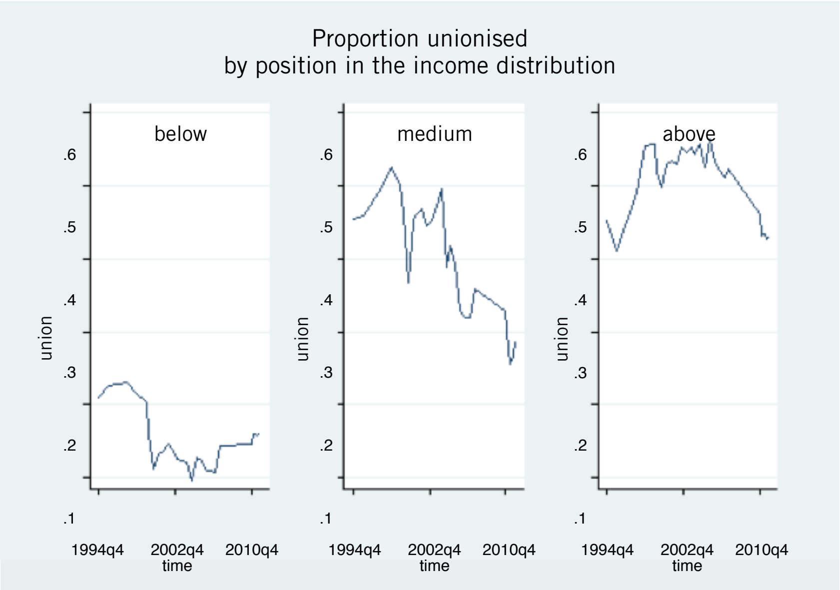
The breakdown of the three groups by occupation shown in Figure 7: Breakdown of low, median and high wage earners by occupation suggests that the composition of the three categories has remained fairly stable on this dimension: those earning below the median are largely in unskilled occupations; median earners come from a range of different occupations from unskilled to craft workers, to white-collar service workers; while people earning above the median come mainly from clerical, technical, professional and managerial positions.

Figure 7: Breakdown of low, median and high wage earners by occupation



Another piece of evidence is shown in Figure 8: Unionisation rate among low, median and high wage earners, where we consider the unionisation rate among low, median and high wage earners. The figures suggest a declining unionisation rate over the period in the middle of the distribution (the blue band in Figure 1). Those earning below the median always had a very low unionisation rate, with some suggestion that it decreased over the period. At the end of the period there is a very clear gap between the unionisation rate above the median (between 40% and 50%) and at the median (25% to 35%).

Figure 8: Unionisation rate among low, median and high wage earners



What has happened to the median worker?

The evidence presented here suggests that there hasn't been a dramatic change in the nature of the "median worker". This worker is now a little more likely to be a woman, will have a little more education, but will still be an African skilled or semi-skilled worker in manufacturing or retail. This worker will be less likely to be unionised now than in 1994.

In some senses this group of workers was the core constituency of the governing party in 1994, and the main supposed beneficiary from the labour market reforms. The fact that this group has seen only small real wage gains underpins the internal ructions in COSATU as well as some of the discontent expressed in less organised ways. Indeed, as suggested by Figure 8 many of these individuals now find themselves outside the ambit of COSATU. The union movement instead has become representative more of higher earning individuals. To the extent to which the ANC becomes more alienated from the median worker, the more instability we are likely to see.

Overall the evidence suggests that real transformation in the labour market is still some way off. South Africa in 2012 is still one of the most unequal societies in the world (Leibbrandt et al 2012). And unfortunately wage inequality is still a part of that picture. This may very well raise the pressure for additional legislative interventions, perhaps of a populist type, in the not too distant future.

DATASETS
Kerr, Andrew, David Lam and Martin Wittenberg (2013), Post-Apartheid Labour Market Series [dataset], Version 2.1, Cape Town: DataFirst [producer and distributor], 2013. [zaf-datafirst-palms-1994-2012-v2.1]

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Leibbrandt, Murray, Finn, Arden and Woolard, Ingrid (2012) "Describing and Decomposing Post-apartheid Income Inequality in South Africa", Development Southern Africa, 29(1): 19-34.

Wittenberg, Martin (2014) "Wages and Wage Inequality in South Africa 1994-2011: The evidence from household survey data", SALDRU Working Paper 135, October 2014, available at http://www.opensaldru.uct.ac.za/handle/11090/767.

The Informal Economy and Sustainable Livelihoods

The informal market is often considered to be an entity distinct from the larger South African economy. However, it has the potential to alleviate poverty and create jobs in areas where few other opportunities exist. Thus, the creation of sustainable livelihoods within the informal economy presents an integral opportunity to contribute to overall growth in South Africa. In order to harness this potential, a transformation of perceptions may be necessary with the perspective of the economically disadvantaged and vulnerable prioritised.

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Socio-Economic History

South Africa's current socio-economic conditions should be understood within the context of the Apartheid and pre-apartheid eras. One aspect worth noting is that the Apartheid segregation laws were designed to ensure that people of colour were confined to townships and excluded from appropriate education and business skill acquisition. However, Apartheid legislation is one factor among an array of interconnected components, which together combined to undermine education, training and livelihood opportunities in South Africa throughout the 20th century. Such limitations on employment opportunities led large segments of unskilled South Africans to seek a form of earning in the informal sector.

The planners of Apartheid sought to build a level of economic stability for the regime with the aim of avoiding popular uprisings. At the centre of this strategy was the image of a married black male breadwinner "living in a formal township house and working a stable job in manufacturing, mining, or the civil service".[1]

This model was also considered essential to South Africa's modernisation agenda in the earlier stages of development. However, in time it was cast aside in favour of new strategies. The consequences for communities however, was the systemic undermining of the stability of township life which has been termed a "crisis of social reproduction"- a term referring to the transfer of culture, knowledge and labour power from generation to generation.[2] The ultimate effect was a compounding of limits on opportunity.

Part of redressing both past inequality and ongoing economic marginalisation must involve the creation of new economic opportunities. One approach may lie in moving beyond the traditional framework of set income and instead focusing upon the broader category of 'livelihoods'.

Sustainable Livelihoods

The notion of sustainable livelihoods emerges from models of participatory development, which became prominent in the 1990s. Instrumental in this field is the work of Robert Chambers. Beyond serving as a means for efficient planning, administration and maintenance, Chambers[3] presents his model as a means of empowerment, whereby locals come to be the owners of the development programme. This approach requires a fundamental reversal of the way in which poverty and deprivation are understood. Specifically, Chambers[4] calls for a focus on the realities and priorities of the poor as the most critical considerations.

Chambers asserts that in redressing deprivation, attention be given to prospects of 'livelihoods' as opposed to merely income. This larger category refers to "the means of gaining a living" and includes one's own capabilities as well as tangible assets, shared resources and general support from others.[5] In explaining the distinction between income and livelihood, Chambers[6] uses the maxim of the Greek poet Archilochus: 'The fox knows many things, but the hedgehog knows one big thing'. According to Chambers full-time employees live with the security of having to know only one 'big thing'- a solitary fixed income. In contrast, the path of the poor often resembles the position of the fox, relying on a variety of activities.

"employment, in the sense of having an employer, a job, a workplace and a wage is more widespread as an aspiration than as a reality."

A common feature of livelihood strategies are basic projects such as home-gardening in both rural and urban environments. In this way, "individuals and families diversify and complicate their livelihood strategies in order to increase income, reduce vulnerability and improve the quality of their lives."[7]

Ultimately, livelihood strategies rely upon a thriving informal market. As Chambers explains "employment, in the sense of having an employer, a job, a workplace and a wage is more widespread as an aspiration than as a reality." [8] Instead, security at the local level is dependent upon a variety of formal and informal activities that cumulatively allow for sufficient income. Chambers rejects the notion that general fiscal growth will inevitably translate into benefits for all. Instead, it is asserted that such 'progress' may also "destroy livelihoods"[9]. Consequently, he outlines measures of protection including securing land and waters rights, the removal of restrictions upon the informal sector and providing access to effective healthcare.

In our current situation, a shock to the established elements of livelihoods may be perceived. Indeed, it would appear that the image of the industrial male has been lost – a situation aggravated by an overall lack of formal employment opportunities. Chambers warns that in such situations "where economic crisis and structural adjustment cut urban jobs, the proportion of foxes can be expected to increase." The informal economy is a vital area for such "fox" strategies, therefore attention should be given to the role of this space within the current South African context.

The Informal Economy

The South African informal economy is made up of multiple instances of unofficial trade. It is not a direct part of the formal economy and often generates its own, smaller markets in areas where this unregulated sector thrives.[10] It incorporates activities such as the "selling or offering or rendering of services in a public road or a public space"[11] and operating an informal, unregistered, small business from one's private property[12]. This includes any road-side shops, 'spaza' shops, newspaper and other vendors, wind-screen washers, and the trade of goods or services outside of a privately owned, registered space. Lower educational and skills requirements allowing for more inclusive business opportunities make the informal economy

essential for livelihoods in developing countries. Particularly, in those that allow for fewer opportunities to build education and skills as a result of economic, political and social instability[13].

South Africa's current unemployment rate is 25.2%. In light of a limited rate of economic growth as well as societal restraints there is a need to address socio-economic inequality in order to empower the most vulnerable. For many South Africans, informal trade is the "alternative to unemployment"[14].

In light of a limited rate of economic growth as well as societal restraints there is a need to address socio-economic inequality in order to empower the most vulnerable. For many South Africans, informal trade is the "alternative to unemployment"

In South Africa, each municipality is empowered to write by-laws that regulate informal trade[15]. Some of Johannesburg's by-laws[16], as an example, are explained below:

- Persons must apply to the Municipal Council ("COUNCIL") for a lease granting the license to trade informally. Trading without this lease is illegal, and can result in a fine or imprisonment.
- The Council may restrict any areas in its jurisdiction from informal traders. This can be done arbitrarily and existing traders may be removed.
- Informal traders may not create smoke, fumes, odours, noise or pollution of any kind.
- Informal traders may not conduct their trade in a way that creates a nuisance. The qualification for "nuisance" is broad and ambiguous, to the detriment of informal traders.

- Informal trade may not be conducted in front of, or within range of a formal business

These by-laws reveal some of the stringent regulations upon informal trade indicating its standing as an unregarded source of income and livelihood creation. In contrast, the South African Local Government Association ("SALGA") asserts that the informal sector should be viewed as an "important part of government's strategies to address unemployment, support livelihood creation and reduce vulnerability"[17].

The reality – as described by the African Cooperative for Hawkers and Informal Business (ACHIB) – is of informal traders being forced away from their livelihoods by Municipal Councils.

The reality – as described by the African Cooperative for Hawkers and Informal Business ("ACHIB") – is of informal traders being forced away from their livelihoods by Municipal Councils. Applicants for leases, without which they cannot trade, are forced to wait months before 'legally' starting or being allowed to go back to work. ACHIB approaches the current situation in light of a thirty-year struggle for the rights of informal traders and describes, in grave terms, the loss of support and attention the organisation has received in recent years. It is feared that constraints on the informal economy is resulting in a limitation of livelihood opportunities[18]. These concerns are reinforced by research illustrating that if the informal economy were "pushed out of business", South Africa's unemployment rate would rise by an estimated 20 percent[19]

The Gauteng Informal Business Sector Strategy of 2014[20] ("STRATEGY") suggests that some factors hindering and sabotaging informal trade are: lack of finance, inconsistent enforcement, insufficient business infrastructure, and a void of relevant policy. In response the *Strategy* recommends a planned, funded and sufficient incorporation of the informal sector into the larger economy[21]. It is believed that this will create vital livelihood opportunities for those who lack formal skills and education. It is argued that results will be seen in areas with especially high levels of unemployment.

In particular, the *Strategy* highlights the importance of supporting informal trading in townships, focusing on development of the sector. This should be done with an eye towards dismantling the precarious elements of social reproduction that Apartheid has left behind. Prioritising informal trading helps to generate economic growth and secure thriving and developing townships. It also increases the skills that move over from the informal to the formal economy[22].

However, we cannot view the informal economy as being exclusively the township economy. In so doing, we fall into the trap of racialising the informal economy, thereby setting it outside the borders of urban life and perpetuating exclusivity. While the township economy should be a part of a thriving informal economy, traders should also be permitted and encouraged to continue and initiate trading in cities.

Conclusion

South Africa's economy and its related development may benefit greatly from expanding to include and prioritise the informal sector. Indeed, the creation of incomes and accompanying livelihood opportunities cannot be seen in the context of formal business alone. Such an approach may only slow the growth of job and

livelihood development. Instead, income and employment generation become possible when people are encouraged and enabled to participate in a diverse range of livelihood activities.

Ultimately, South Africa's informal economy should be viewed and celebrated as a way to redress past economic marginalisation.[23]

FOOTNOTES

1 Hickel, J. 2014. "'Xenophobia' in South Africa: Order, Chaos, and the Moral Economy of Witchcraft," Cultural Anthropology Vol. 29 (1) p.118-120
2 Hunter, M., 2010. Love in the Time of AIDS: Inequality, Gender, and Rights in South Africa. Indiana University Press, Bloomington, Indiana p. 5
3 Chambers, R., 1994. "The origins and practice of Participatory Rural Appraisal", World Development, Vol. 22 (7).
4 Chambers, R., 1995. "Poverty and Livelihoods: Whose Reality Counts?" Environment and Urbanisation, Vol. 7(1).
5 Chambers, 1995 p. 174
6 Chambers, 1995 p.192
7 Chambers, 1995 p. 203
8 Chambers, 1995 p. 195
9 Chambers, 1995 p. 202
10 South African Local Government Association (SALGA) 'Making The Informal Economy Visible' (June 2012)
11 'City of Johannesburg Informal Trading By-Laws' in Provincial Gazette (March 2012) Local Authority Notice 328: pg. 7
12 SALGA "Guidelines for Municipalities' (2012) pg. 5
13 'The Informal Economy in Developing Countries' in: Routledge Studies in Development Economics. 2015
14 SALGA "Guidelines for Municipalities" (2012) pg. 7
15 The Business Act (1999)
16 Informal Trading By-Laws (2012)
17 SALGA 'Guidelines for Municipalities' (2012) pg. 2
18 Mike Molloyi of ACHIB South Africa
19 SALGA 'Guidelines for Municipalities' (2012)
20 Gauteng Informal Business Sector Strategy: eThekwini Municipality (December 2014) pg. 3
21 'Gauteng Informal Business Sector Strategy' eThikweni Municipality (December 2014) pg. 5
22 SALGA 'Making the Informal Economy Visible' (2012)
23 Gauteng Informal Business Sector Strategy' eThikweni Municipality (December 2014) pg. 5

Statistics South Africa: Behind the Scenes of Economic Statistics

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Statistics South Africa ("Stats SA") is a government department that is governed by the Statistics Act, No. 6 of 1999. Section 3(1) of the Act states that the purpose of official statistics is to assist organs of state, business, other organisations and the public in planning; decision-making or other actions; and the monitoring or assessment of policies, decision-making or other actions. Section 3(2) of the Act requires that official statistics must protect the confidentiality of respondents' information and must be: relevant, accurate, reliable and timely; objective and comprehensive; compiled, reported and documented in a scientific and transparent manner; disseminated impartially; accessible; in accordance with appropriate national and international standards and classifications; and sensitive to distribution by gender, disability, region and similar socio-economic features.

The Statistics Act is available on Stats SA's website: www.statssa.gov.za. Also available on Stats SA's website are its annual reports, which document Stats SA's operations and the many changes that have taken place in Stats SA and its publications in recent years. Worldwide, official statistical agencies have an image of producing pretty much the same material year-in, year-out, but for statistics to remain reputable and dependable their compilation requires continual maintenance and improvement. The discussion that follows provides a short overview of developments of Stats SA's "economic statistics", which are listed in Table 1. These are based on enterprise surveys and a variety of other external sources. Excluded from the discussion is Stats SA's very extensive set of household surveys (except for household expenditure in the context of the consumer price index), as well as other statistical releases and reports which deal with the population and society rather than the economy per se; labour statistics too are not covered in the discussion.

Table 1 reflects the current (2015) state of play regarding Stats SA's economic statistics. A similar table for five years ago would not look very different. But behind the scenes there is a continual agenda of change to keep things up to date. Such changes, even the major ones, often go unnoticed or are quickly forgotten. This article will remind some readers, and inform others, of innovations that have taken place and will touch on forthcoming changes in the national accounts, improvements in communication, and a few constraints and concerns.

Table 1 – "Economic statistics": monthly, quarterly, annual and periodic statistical releases and reports published by Stats SA

Monthly:
Mining (reference number P2041); Manufacturing (P3041.2); Electricity (P4141); Building plans passed and building completions (P5041.1); Wholesale trade (P6141.2); Retail trade (P6242.1); Motor trade (P6343.2); Food and beverages (P6420); Tourist accommodation (P6410); Land transport (P7162); Liquidations and insolvencies (P0043); Civil cases for debt (P0041); Consumer price index (P0141); Producer price index (P0142.1); Contract price adjustment provisions (P0151); Export and import unit value indices (P0142.7).
Quarterly:
Capacity utilisation in manufacturing (P3043); Quarterly financial statistics (P0044); Quarterly financial statistics of municipalities (P9110); Gross domestic product (P0441).
Annual:
Agricultural survey (P1101); Building plans passed and building completions (P5041.3); Building completions (Report 501101); Annual financial statistics (P0021); Capital expenditure by the public sector (P9101); Financial statics of: extra-budgetary accounts and funds (P9102), higher education institutions (P9103.1), provincial government (P9121), national government (P9119.3) and consolidated general government (P9119.4); Financial census of municipalities (P9114); Non-financial census of municipalities (P9115); Environmental economic accounts compendium (Report 04-05-20); Tourism satellite account for South Africa (Report 04-05-07); Information and communication technology satellite account for South Africa (Report 040701); Input-output tables for South Africa (Report 04-04-02).
Periodic:
Large sample surveys (LSSs) are conducted for the following industries every three to four years: mining; manufacturing; electricity, gas and water; construction; trade; transport, storage and communication; real estate, activities auxiliary to financial intermediation and business services; and personal services. (In most cases the LSSs provide more detailed information than the monthly, quarterly and annual surveys. They provide important information for researchers and policy makers, for the national accounts, and for determining weights of price indices. Selected environmental accounts are published periodically, which, inter alia, provide information relevant to sustainable development).

Prices (inflation statistics)

A good place to start is the monthly consumer price index ("CPI"), which has undergone a number of changes since 2009. A "new" CPI was introduced in February 2009. There were many differences between the "old" CPI and the "new" one, the four biggest being (I) the classification system that was used, (II) the updating of the consumer basket and weights[1] (including the method used for determining the weights), (III) the change in base year from 2000 = 100 to 2008 = 100, and the (IV) treatment of housing. Previous rebasing and reweighting exercises typically involved linking the old and new series together, but the changes that were made in 2009 were so extensive that a parallel run of the CPI was required for 2008. In other words, the CPI had to be recalculated from January 2008 using the new criteria so that accurate annual percentage changes (i.e. the annual inflation rate) could be calculated from January 2009 onwards.

The basket and weights for the CPI are derived from surveys of household expenditure and supplementary sources. In 2009 (2008) the new CPI weights were based mainly on Stats SA's income and expenditure survey ("IES') for 2005/06. An important innovation in the 2005/06 IES was the use of a diary in which households were requested to keep a daily record of their daily expenditures, whereas previous expenditure surveys had relied on households' ability to estimate their expenditures from their records and memory. In addition, the survey was conducted over 12 months whereas previous surveys were conducted in a single month. The new classification system *(Classification of Individual Consumption by Purpose in place of the International Trade Classification)* and the new expenditure survey methodology resulted in changes in the CPI weights that were much larger than usual. In particular there was a large decline in the weight of food, although this was partly the result of an increase over time in incomes in real terms (higher-income households tend to spend a lower proportion of their income on food than lower-income households).

In the housing component of the CPI, mortgage bond costs ("old CPI") were replaced with owners' equivalent rent ("new CPI"), which measures the opportunity cost to home owners of forgoing a rental income by living in the house they own rather than renting it out. One of the complications of the mortgage bond approach was that a tightening of monetary policy, usually intended to reduce inflation, was accompanied by a rise in the mortgage interest rate, which placed upward pressure on the CPI. This was addressed through the CPIX, which excluded the mortgage bond component from the inflation calculation. With the change in methodology the CPIX was no longer needed and it was discontinued.

Statistics South Africa is committed to maintaining a high level of professionalism and transparency, and this is appreciated by users. It also shows a high level of commitment to collecting good quality data, to methodological soundness and to publishing reliable indices.

Further updates to the CPI took place in 2013 when the CPI was rebased to December 2012 = 100. The basket and weights were updated, based mainly on Stats SA's IES of 2010/11. Other changes were the introduction of food prices collected in rural areas; fruit and vegetable prices from the informal sector; quality adjustments for motor vehicles, cell phones and selected household appliances; quantity adjustments; and a "trimmed mean" measure of core inflation.

Stats SA rebases the CPI and updates its weights every four to five years. Improvements in CPI methodology are typically introduced at the time of rebasing and reweighting, although interim adjustments may also be made. For example, the pricing of clothing is difficult because of changing fashions and sales (discounts): from January 2008 sale prices were excluded from the clothing index, and in December 2014 Stats SA announced that quality adjustments would be introduced for clothing and footwear with effect from January 2015.

A detailed explanation of the CPI is available in Stats SA's publication *The South African CPI Sources and Methods Manual*. In 2011 a peer review of the CPI was conducted by an international CPI expert who, while making recommendations for further improvements in the CPI, concluded that

> "Statistics South Africa's Consumer Price Index is generally of a good quality and adheres to many of the relevant international standards and to recognised good practices in index construction and in statistical production more generally; The statistical foundation of the South African CPI has not been stronger than it is now. Statistics South Africa is committed to maintaining a high level of professionalism and transparency, and this is appreciated by users. It also shows a high level of commitment to collecting good quality data, to methodological soundness and to publishing reliable indices."

A report on the CPI peer review is available on Stats SA's website.

Like the CPI, the producer price index ("PPI") is also published monthly and has also undergone substantial changes since 2008. Prior to 2008, although the components of the PPI were generally reliable, the compilation of the headline PPI was problematic in three main respects. Firstly, the high-level weights were based on sales rather than value added, which could result in substantial differences between the PPI and the GDP (gross domestic product) deflator when calculated for GDP components covered by the PPI. Secondly, the headline PPI combined products that were completely different in nature and at different stages of production, so that it was difficult to interpret what the headline PPI was really measuring; for instance, it included food prices at both the agricultural and manufacturing stages, and it included import prices. Thirdly, the export and import price indices suffered from low response rates. The shortcomings of the PPI were dealt with in three stages.

Firstly, early in 2008 the high-level weights were updated using value added rather than sales, thereby bringing the PPI weights more in line with national accounts weights, and the practice of including import prices in the headline PPI was discontinued.

An important dimension of the project was a campaign to work closely with industry associations and specific respondents to ensure that the relevant goods would be priced accurately and that monthly response rates would be high.

Second, a multi-year project to completely overhaul the PPI was initiated, culminating in a set of five PPIs that were first published in early 2013 with new weights and a new base year. The new headline PPI measures prices of final manufactured goods (goods that are in their final form, ready for retailers to sell to consumers). The other four PPIs measure the prices of intermediate manufactured goods (goods that require further processing before they reach final stage); electricity and water; mining; and agriculture, forestry and fishing. An important dimension of the project was a campaign to work closely with industry associations and specific respondents to ensure that the relevant goods would be priced accurately and that monthly response rates would be high.

Third, another multi-year project was undertaken to deal specifically with export and import prices. Collecting export[2] and import prices is difficult and expensive to do properly, so Stats SA investigated whether export and import 'unit values' (value divided by quantity) could be compiled from international trade statistics provided by the South African Revenue Service. This culminated in the monthly publication of export and import unit value indices with effect from early 2014 (which replaced the previously published export and import price indices). Detailed explanations of the PPIs and UVIs are available in Stats SA's publications Producer Price Index: Methods, Sources and Theory; and Export and Import Unit Value Indices: Methods and Sources.

Economic activity and the national accounts

Thus far, the discussion has concentrated on prices (inflation), which comprise just one part of economic statistics. Most of the time series in Table 1 are measures of economic activity, many of which require accurate prices for conversion to measures of economic activity in volume terms (i.e. in real terms or in constant prices). Ongoing maintenance and/or improvement takes place across all of Stats SA's economic statistics. These take the form of new samples, new base years, new weights, new deflators, improved seasonal adjustment, and keeping up to date with international accounting standards. For instance, the deflators used for retail trade are updated every three to four years using weights from the large sample survey of the retail industry, and the calculations for manufacturing production and wholesale trade in constant prices were affected by the changes in the PPI described above. Series that are seasonally adjusted have been subjected to more sophisticated seasonal adjustment techniques that produce more reliable results, in particular regarding the "Easter effect" (the Easter holidays usually fall in April but sometimes fall in March, which complicates the process of seasonal adjustment in some cases).

Stats SA invests heavily in keeping its estimates of GDP as accurate as possible. Every five years the GDP (and the entire national accounts) is benchmarked using the latest available annual and periodic surveys.

Most economic statistics, whether they measure prices or economic activity, are used in Stats SA's compilation of "GDP". GDP is the most widely used measure of economic growth, and its accuracy is highly dependent on its source data, whether the latter come from official or other sources. Both the level of GDP and period-to-period changes in GDP are important economic indicators for a wide spectrum of users, and Stats SA invests heavily in keeping its estimates of GDP as accurate as possible. Every five years the GDP (and the entire national accounts) is benchmarked using the latest available annual and periodic surveys. A new base year is introduced and historic data are revised accordingly. Benchmarking of the national accounts is the reconciliation of high-frequency monthly/quarterly data that track short-term dynamics in the economy with more accurate and detailed annual and periodic data of lower frequency.

The five-yearly national accounts benchmarking and rebasing exercise typically provides a good opportunity for introducing improved coverage and/or methodologies. The results of the latest benchmarking and rebasing were published in November 2014 (the base year was changed from 2005 to 2010, i.e. the accounts in constant prices now use 2010 prices instead of 2005 prices). An important innovation in 2014 was the introduction of key elements of the 2008 System of National Accounts ("SNA"), which replaced the 1993 SNA. The SNA is the national accountant's ultimate guide for compiling the national accounts; it is a product of the United Nations, the IMF, the World Bank, the OECD and Eurostat.

Highlights of the last four national accounts benchmarking exercises are shown in Table 2.

Table 2 – Main innovations in national accounts benchmarking

1995 base year (implemented in 1999)	SNA 1993 (replacing SNA 1968); increased coverage in areas such as the informal sector and telecommunications
2000 base year (implemented in 2004)	New business register based on tax records; Supply-use tables for annual estimates; Double deflation (i.e. separate deflation of components to calculate value added)
2005 base year (implemented in 2009)	Inclusion of non-observed economy (illegal and underground activities); Increase in compilation level of supply-use tables
2010 base year (implemented in 2014)	SNA 2008 (important elements); Use of (inter alia) 2011 population census

The next GDP rebasing is scheduled for 2019 (change from 2010 base year to 2015 base year). However, if current plans continue to run smoothly, important changes in the compilation and presentation of GDP will take place in early 2016. In South Africa the current institutional arrangement for the estimation of GDP is that the "production"approach (or calculation) is the responsibility of Statistics South Africa (the official estimate of GDP), while the "expenditure" approach is the responsibility of the South African Reserve Bank ("SARB'). In theory the production and expenditure approaches must result in the same GDP estimate; in practice the results can be quite different, and consequently the expenditure estimate of GDP contains a residual to ensure that its published GDP estimate is the same as the production estimate.

It is rare, if not unique to South Africa, for the production and expenditure estimates of GDP to be compiled by separate institutions. The SNA provides a consistent framework in which source data can be confronted, reconciled and balanced to reach GDP measured by different approaches. The volume of source data is large. It is not optimal for two institutions with different core functions, legal mandates, staff complements and organisational cultures to compile separate estimates of a concept as complex as GDP using the full range of opportunities provided by the SNA framework.

A group of young economists and statisticians was recruited for intensive training in official statistics and national accounts, the expenditure-based estimates of GDP in particular.

Consequently, in 2012 Stats SA initiated a long-term project to build the capacity that would be required for Stats SA to take responsibility for the expenditure calculation of GDP. A group of young economists and statisticians was recruited for intensive training in official statistics and national accounts, the expenditure-based estimates of GDP in particular. The training was conducted by several international experts in national accounts, and in preparing for the transition, Stats SA has worked closely with the SARB at every stage of the project. The work has progressed well, and if it continues to do so, expenditure-based estimates of GDP will be published by Stats SA for the first time in early 2016. Users will receive the production and expenditure GDP estimates simultaneously in one statistical release, which should assist them in analysing the results more effectively (currently the production estimates are published two to three weeks before the expenditure estimates).

The GDP expenditure project has also provided an opportunity, with the assistance of international experts, to assess the adequacy of source data for the national accounts. As stated above, the volume of source data that must be analysed in the compilation is large. But for national accountants, large is never enough! The national accountant will always want more information, in as much detail as possible, and delivered sooner rather than later. The survey that has received the most attention in this regard is the Quarterly Financial Statistics ("QFS"). To be of full benefit to GDP, the QFS results need to be available earlier than has historically been the case, and as a primary source for fixed investment and changes in inventories, the QFS (or a variant thereof) requires significant re-engineering.

The export and import unit value indices mentioned in the previous section are a recent innovation that rely on administrative data (trade data from SARS). Administrative data may provide cost-effective solutions in other areas as well, such as estimates of economic activity at regional level, and Stats SA will continue to explore these possibilities.

Communication with the public

For any official statistics agency, whose independence and neutrality are of the utmost importance to its credibility, communicating official statistics requires a careful balance. On the one hand it is important to make statistics accessible to the public and to explain their meaning clearly, especially considering that a large portion of the public (worldwide) is fearful of the very concept of statistics. On the other hand, in the process of disseminating data and demonstrating how they can be used, it is important for statistical agencies to avoid being drawn into contentious policy debates beyond the mandate of their enabling legislation.

For example, research has been conducted for a number of additional enterprise surveys, namely air transport, communications and real estate. But for these and other new surveys to proceed, additional funding would be required.

Communication is not 'behind the scenes' (on the contrary!), but is nevertheless mentioned here as Stats SA has taken a number of steps to communicate its statistics more effectively. Stats SA's website was recently revamped, with one of the many new features being data stories based on statistical releases. Increased attention has been given to press conferences with presentations that aim to explain the data clearly. In 2012 the layouts of several statistical releases were revamped to improve their presentation. Other recent developments include the introduction of 'apps' on Apple products and the use of Twitter. In 2014 an economic statistics user group was instituted to complement a number of more specific user groups that already exist. These user groups are an important channel for Stats SA to inform users of forthcoming developments and for users to give feedback to Stats SA and raise concerns which they may have regarding economic statistics.

Constraints and concerns

While the developments outlined above convey a generally positive message about recent achievements and further progress to come, in the world of economic statistics there will always be room for further improvements in existing surveys and the potential for additional surveys to fill gaps in the coverage of the economy. For example, research has been conducted for a number of additional enterprise surveys, namely air transport, communications and real estate. But for these and other new surveys to proceed, additional funding would be required. A full census of agriculture, last conducted in 2007, would also require additional funding (the agricultural survey listed in Table 1 is confined to commercial farms registered for tax).

An ongoing concern for Stats SA is the administrative burden that is placed on respondents in completing our questionnaires, and the associated risk of lower response rates if the burden becomes too onerous and/or respondents perceive their co-operation to be a waste of time and effort. Communicating a message of the importance of reliable official statistics, to both respondents and the public in general, is therefore an ever-present imperative for Stats SA.

There is widespread demand for many of Stats SA's economic statistics to be made available at a regional level rather than national only. It is difficult to comment on the prospects for any progress here in the near future, as even with increased funding (to run larger samples, for example) there would be serious obstacles, one of which is the problem of respondent burden which has already been mentioned. This is an area in which innovative use of administrative data may provide answers. Users have also requested access to unit data from existing surveys, but there are legal obstacles to meeting these requests arising from strict confidentiality provisions in the legislation and the willingness of respondents to complete our questionnaires.

For South Africa's economic statistics to be optimal and internationally comparable it will be important for Stats SA to implement a South African version of ISIC 4.

A final issue to mention here is the implementation of a new classification system for Stats SA's enterprise surveys. Currently these are based on SIC 5 (Standard Industrial Classification of all Economic Activities, fifth edition). SIC 5 is based on the third revision of the International Standard Industrial Classification of all Economic Activities ("ISIC 3"), with suitable adaptations for South African conditions. ISIC 4 was published in 2008, and it introduced many changes in the classification of economic activities. For South Africa's economic statistics to be optimal and internationally comparable it will be important for Stats SA to implement a South African version of ISIC 4. This, however, would require substantial funding, which may be difficult to secure in the current environment of public-sector budgetary constraints.

Conclusion

Keeping a nation's official statistics up to date and relevant goes far beyond the repetitive processes that the public tends to associate with the day-to-day running of a national statistical office. Certainly there are many routine procedures without which Stats SA would not be able to function, but alongside those are programmes of change that are an ever-present requirement if official statistics are to live up to the expectations of the Statistics Act (refer back to the opening paragraph). The preceding discussion provides some insight into developments that have taken place in Stats SA's 'economic statistics' in recent years, as well as plans for the future. The programmes of change in Stats SA's household surveys have not been covered here, but these have been no less extensive, if not more so. As economies and societies change and develop, it is inevitable that their statistical measurement should change and develop as well.

FOOTNOTES

1 In the CPI, the 'basket' refers to the choice of goods and services which are selected for pricing, and the 'weight' of a group of items is its relative importance in the total basket of goods and services.

2 Export prices specifically; the PPI reflects prices received for goods sold whether or not they are destined for local or export markets.

The Success of Knowledge Creation in South Africa: Relying on Virtue Alone Will Not Be Enough

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When I think of Harry Zarenda, two characteristics stand out. He was one of the most dedicated teachers of economics I have known, one who deeply influenced many generations of students. He also passionately engaged debate on economic policy. Unusually, he engaged such debate with a generosity of spirit, and a genuine curiosity that turned discussion with him into a source of pleasure, often humour, especially if one disagreed (as he and I almost routinely did). Yet Harry's vocational pursuit was conducted in an institutional environment that incompletely acknowledged his virtues.

It is Harry Zarenda's deep commitment to the pursuit and transmission of knowledge that motivates my contribution to this volume of *Focus*, which seeks to recognise his contribution to South African intellectual life. Specifically, I wish to examine how well South Africa's knowledge creation systems fare in terms of an international comparative perspective.

This is all the more important since South Africa's National Development Plan places knowledge creation and innovation at the heart of its growth strategy:

> "South Africa needs to sharpen its innovative edge and continue contributing to global scientific and technological advancement. This requires greater investment in research and development, better use of existing resources, and more nimble institutions that facilitate innovation and enhanced cooperation between public science and technology institutions and the private sector." [National Development Plan Executive Summary, p.17]

This is a good idea. Unfortunately, as I intend to illustrate, South Africa does not live up to this hype, and underperforms its peers. At the root of this poor performance is a reliance on misaligned incentive systems, which too weakly tie to research excellence. As a result, success in knowledge creation in South Africa relies too heavily on the personal vocational commitment of researchers. Harry's example illustrates that such virtue is too rare to serve as a reliable basis for national policy.

South Africa's Knowledge Creation in International Comparative Perspective

So how does South Africa's capacity to create knowledge compare to international comparators?

To answer this question, we consider two sets of evidence. The first reports results from Confraria and Godhinho (2015) which considers the research output of African nations. The second considers South Africa's performance relative to benchmarks set by high-income and middle-income nations, as well as some specific Latin American countries.

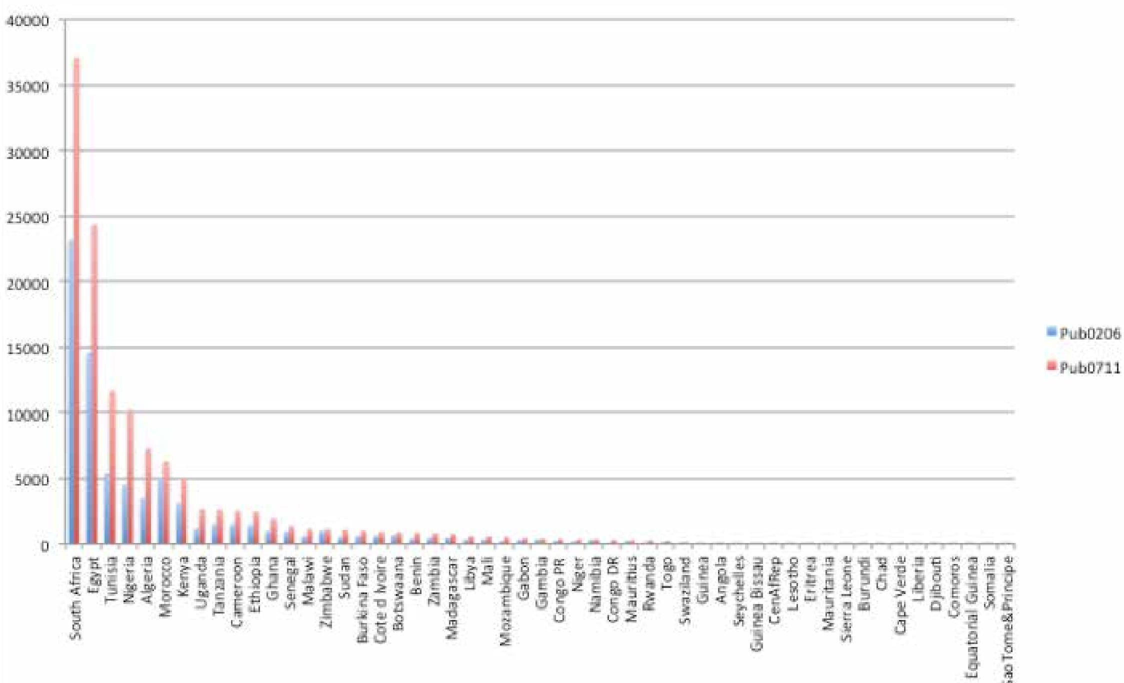
South Africa and Africa Compared

Relative to the rest of the African continent, South Africa's performance appears reassuring in a number of dimensions.

In terms of total research output, defined as peer reviewed published papers as captured by the Thomson World of Science InCites data base, South Africa not only overshadows the rest of the continent, but it has increased research output from the 2002-6 to the 2007-11 time periods. Figure 1 illustrates. Other than Nigeria, the only even approximate competitors are Mediterranean.

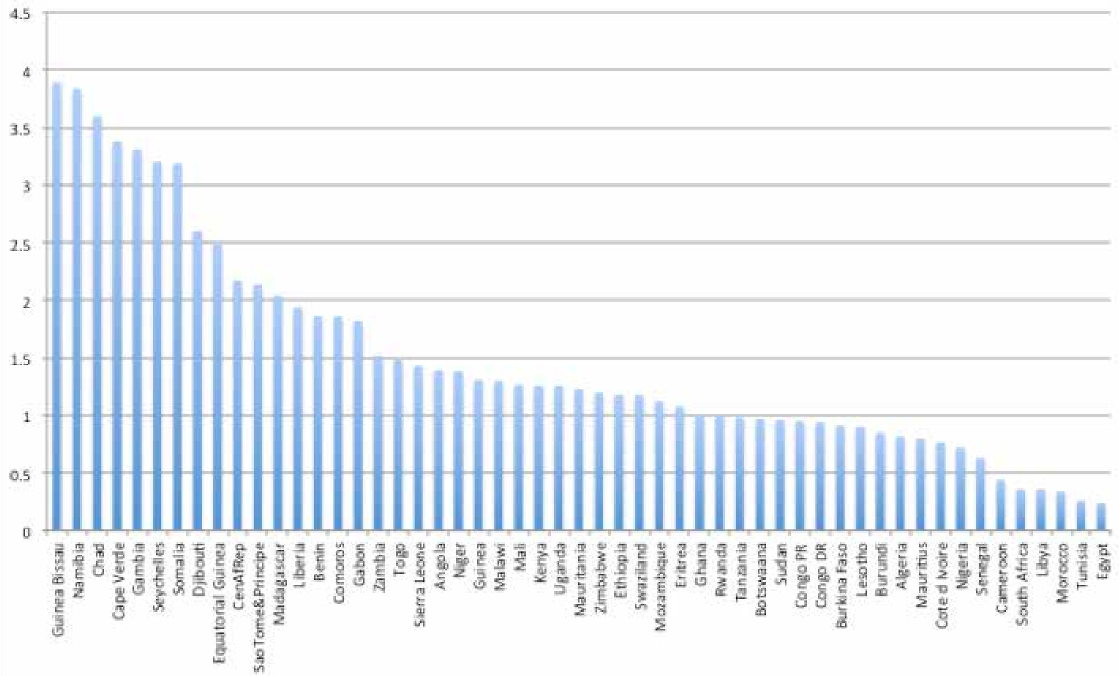
Normalizing the absolute publications output on GDP and population modulates the result. In terms of per unit of GDP South Africa's research output declines to rank 13 in Africa, and to rank 3 when research output is normalized against population. Notable is that the South African publications per unit of population measure of 150 for the 2007-11 period lies below the world average of 170, though it is an improvement on the recorded value of 99 for 2002-6.

Figure 1: Publication Output: 2002-6 vs 2007-11
Source: Confraria and Godinho (2015)



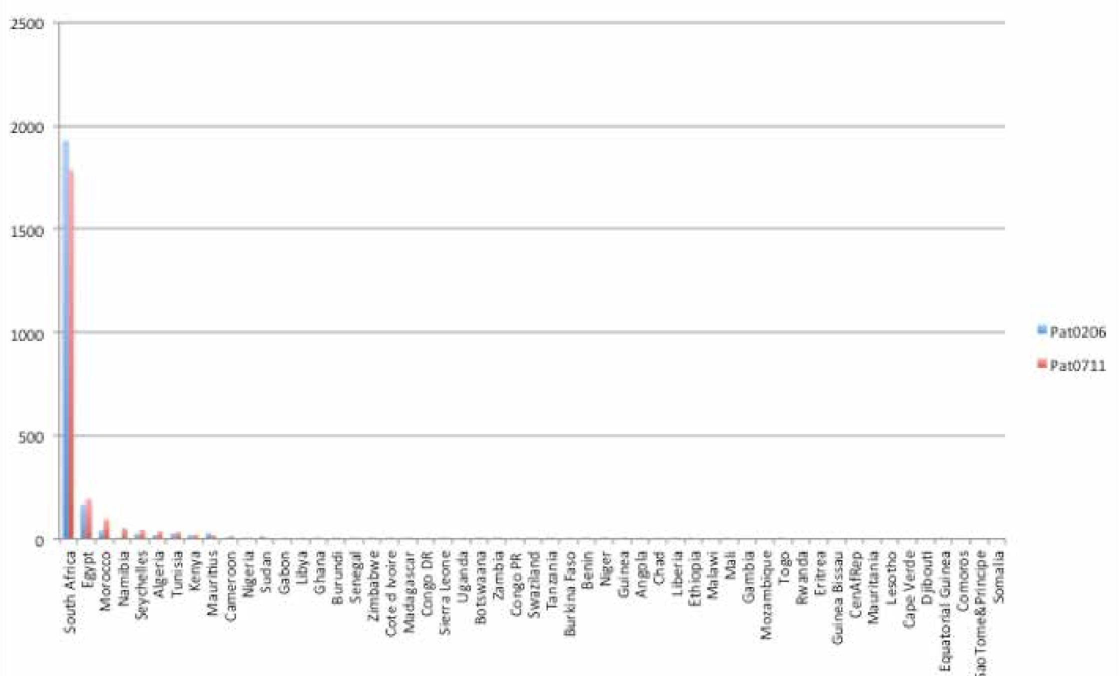
Also reassuring is that South Africa's research output is relatively generalized across disciplinary areas, rather than being narrowly specialized in a small number of niche disciplines.[2] As Figure 2 demonstrates by means of a specialization intensity index (SII), only Egypt, Tunisia, Morocco and Libya are less specialized than South Africa on the African continent for the 2007-11 period.

Figure 2: Specialisation (S11 2007-11)
Source: Confraria and Godinho (2015)



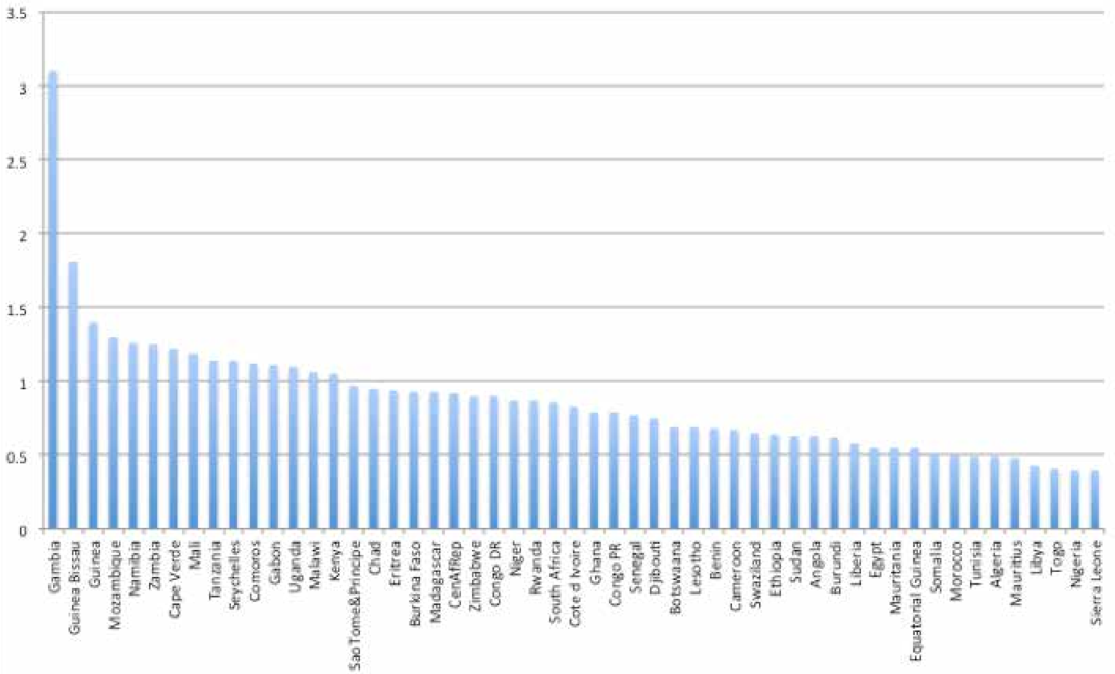
In terms of patent applications, South Africa's dominance on the continent is even more marked – it registers more patents than the rest of the continent combined. But as Figure 3 demonstrates, in this instance the trend over the 2002-6 to 2007-11 period has been downward.

Figure 3: PCT patent applications: 2002-6 vs 2007-11)
Source: Confraria and Godinho (2015)



In the African context there is also cause for concern, however. Consider the impact of research, as measured by the CXC index reported in Figure 4 for the 2007-11 period.[3] What emerges is that the impact of South African research is at best mid-table in the African context. In particular, the specific CXC value for South Africa implies that South African research publications are cited at only 86% of the world average across all research areas. (Any recorded value of the CXC above 1 indicates performance above the average world impact.)

Figure 4: Impact Measure (CXC 2007-11)
Source: Confraria and Godinho (2015)



As to output across disciplines for the 2007-11 period, the greatest absolute output for South Africa occurred in Clinical medicine, Economics and business, Plant and animal sciences, the Social sciences, and Chemistry. These five areas alone account for approximately 57% of total recorded publications output of South Africa. See the evidence of Table 1.

Table 1			
	Publications		RSI
Clinical medicine	5662	Plant and animal science	2.57
Economics and business	5662	Environment ecology	2.29
Plant and animal science	4936	Social sciences (general)	2.05
Social sciences (general)	3564	Immunology	1.95
Chemistry	2896	Mutidisciplinary	1.94
Environment ecology	2328	Space science	1.92
Engineering	1895	Geosciences	1.8
Geosciences	1819	Economics and business	1.52
Biology and biochemistry	1640	Microbiology	1.32
Physics	1581	Agricultural Sciences	1.18
Psychiatry psychology	1026	Psychiatry psychology	1.15
Mathematics	1009	Mathematics	1.01
Agricultural Sciences	961	Biology and biochemistry	0.77
Immunology	794	Clinical medicine	0.76
Microbiology	789	Chemistry	0.71
Materials science	765	Pharmacology and toxicology	0.71
Space science	759	Engineering	0.63
Pharmacology and toxicology	494	Physics	0.5
Molecular biology and genetics	413	Computer science	0.47
Computer science	343	Materials science	0.46
Neuroscience and behavior	322	Molecular biology and genetics	0.43
Mutidisciplinary	160	Neuroscience and behavior	0.32

Since not all disciplines show the same publication rates, one way to control for discipline-specific characteristics is to consider a modification of the Balassa revealed comparative advantage index. This is given by the ratio of the country specific ratio of discipline-specific publications to total publications, to the aggregate world ratio of publications in that discipline to total publications – reported as the RSI in Table 1. Note that any value above 1, indicates a revealed comparative advantage, in the sense that the country specific publication intensity in that discipline lies above the world average. In terms of this measure of performance, Plant and animal sciences, Environmental ecology and the Social sciences report very strong revealed comparative advantage (RSI exceeds 2), and a further 9 disciplinary areas exceed the world average in terms of publication intensity. Note that of the five disciplines that account for 57% of total publications, only three (Plant and animal sciences, Social sciences, Economics and business) also report a revealed comparative advantage (Clinical medicine and Chemistry do not).

In summary, the comparison with the rest of Africa suggests that South Africa reports a creditable performance, particularly in terms of the quantity of its research, though with some concerns regarding the impact of its published research.

But there is an obvious limitation that attaches to any South African comparison to the rest of Africa in terms of research performance. This arises due to the fact that the African region reports the weakest performance of any geographical region in research terms. As such, it does not provide a very demanding standard against which to measure South African performance.

What is more, virtually all countries in Africa lie considerably below South Africa in terms of GDP per capita measures. A more appropriate comparator group of countries for South Africa are middle-income countries and upper middle-income countries that have comparable levels of economic development.

It is to this comparison that we now turn.

South Africa Relative to Countries of Comparable Levels of Development

So how does South Africa compare to countries of comparable levels of development?

To answer this question, we contrast South Africa's performance across a range of metrics against the Upper Middle Income country average, the BRICS grouping (Brazil, Russia, India, China excluding South Africa), as well as Argentina and Chile. In addition, we compare South Africa's performance against the benchmark set by the developed, high-income countries.[4]

All data is from the World Bank Development Indicators.

Consider first the publications of scientific and technical journal articles per capita, as reported in Figures 5 and 6. The first striking feature about the evidence is that South Africa's per capita production of publications has been on a downward trend since the mid-1980s. The increased research output that we noted in section 2.1 above, has not significantly reversed this downward trajectory. As expected South Africa lags the benchmark set by High Income countries. But what is striking is that the gap between South Africa and the High Income average has been growing, and strongly so.[5] What is more, while historically South Africa's publication performance was above that of the Upper Middle Income average, by the close of our sample period the gap has been not only closed, but South Africa now lies below the Upper Middle Income mean.

Figure 5: Scientific and Technical Journal Articles per Capita

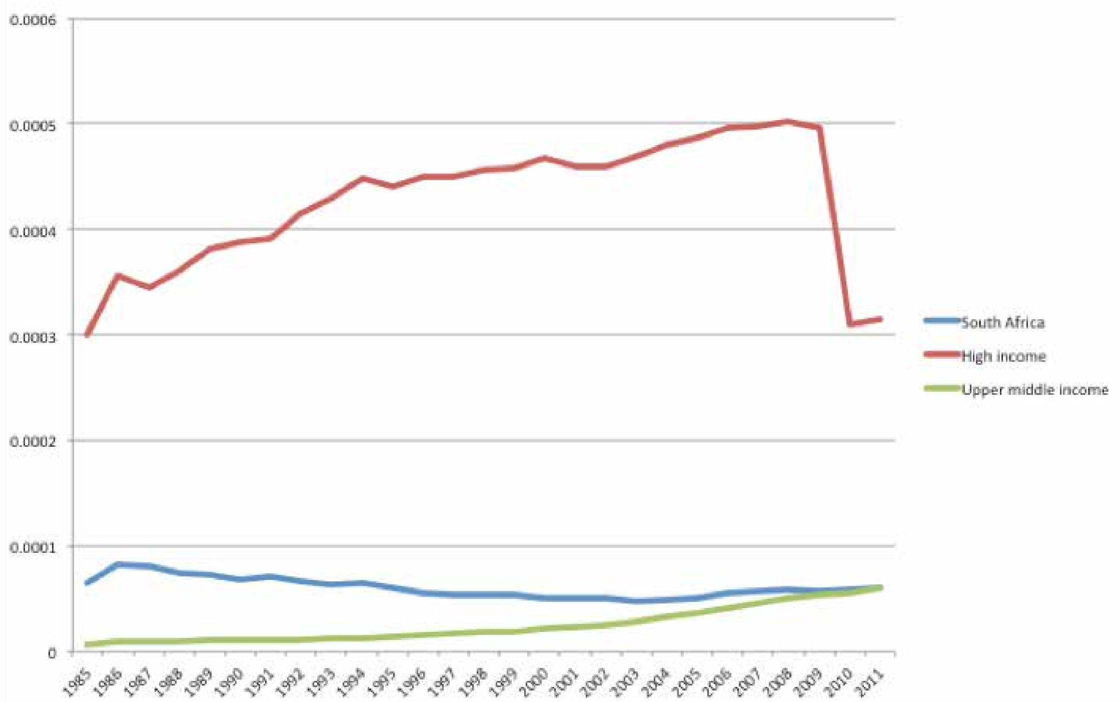
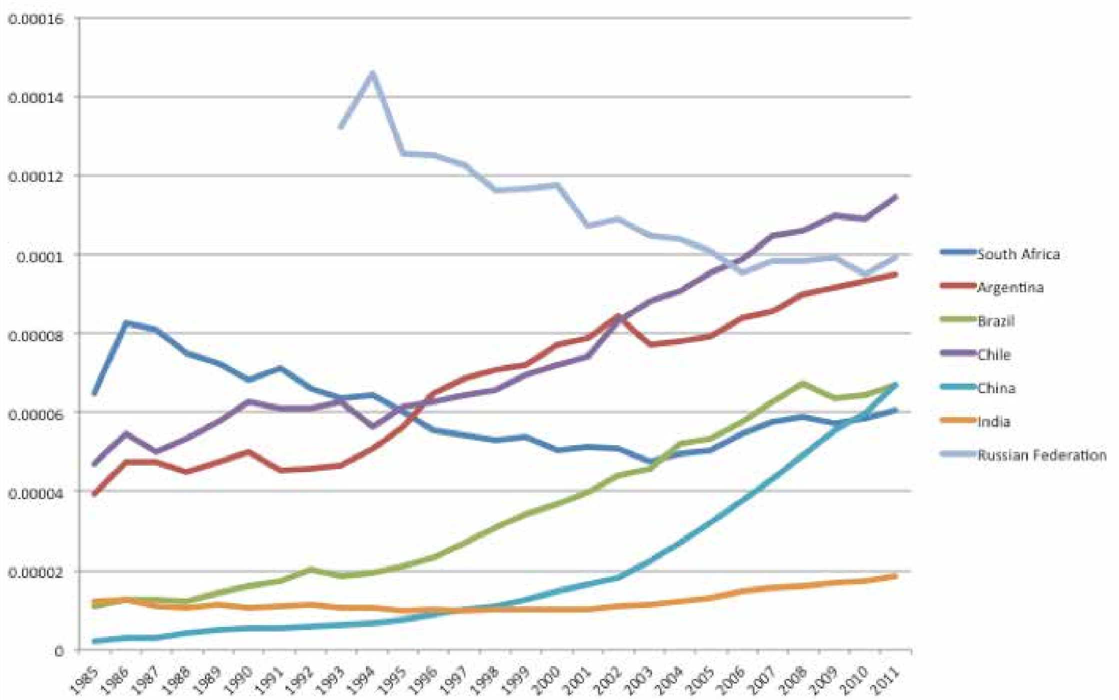


Figure 6: Scientific and Technical Journal Articles per Capita



A symmetrical inference arises from the augmented BRICS grouping (which includes Argentina and Chile). With the exception of Russia (which generates output at a much higher level than South Africa), all of the countries in the augmented BRICS grouping show upward trends and for Argentina, Brazil, Chile and China the trend has been strongly upward since the early 1990s. The result is that all of the augmented BRICS countries now produce more scientific and technical articles per capita than South Africa, with the sole exception of India.

An immediate explanation of this weak South African performance lies in poor research capacity. In Figures 7 and 8 we report the number of researchers engaged in research and development per million of population. Here, while South Africa reports an increasing trend, the trend is not only extremely moderate, but has been overshadowed by the increases reported in both Upper Middle Income and High Income countries.

The augmented BRICS comparison further emphasizes the point. Only India employs fewer R&D researchers per million of population, and Argentina, Brazil and China all report strongly increasing trends in contrast to South Africa's relative flat-lining. Russia's declining trend has to be interpreted in the light of the fact that

Figure 7: R&D researchers per million population

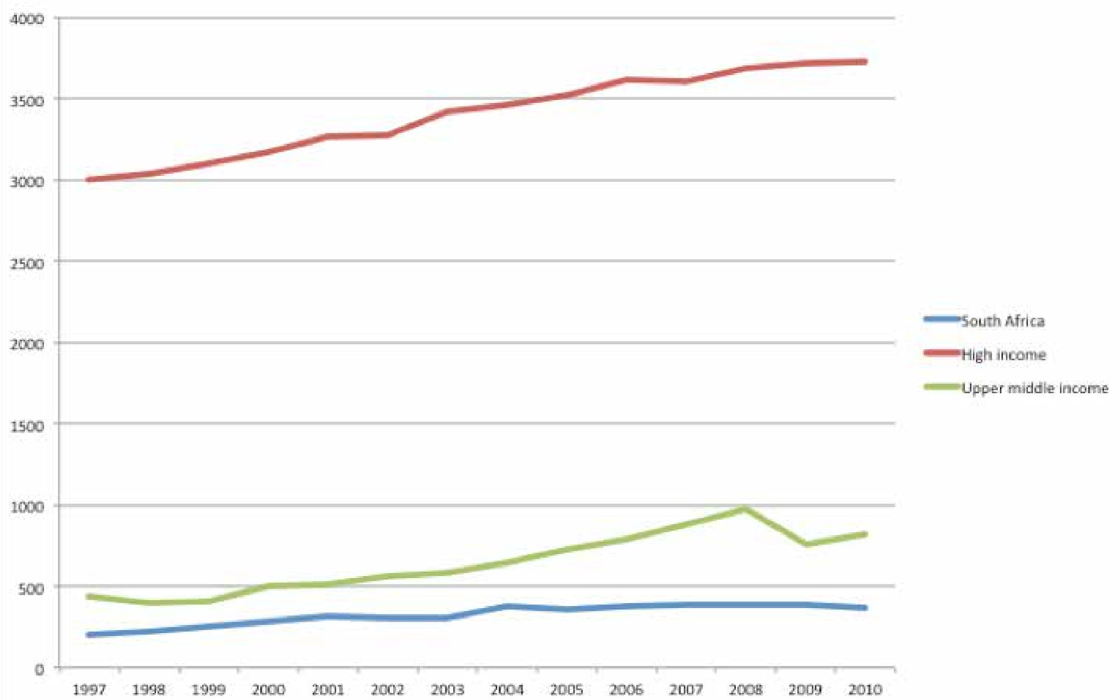
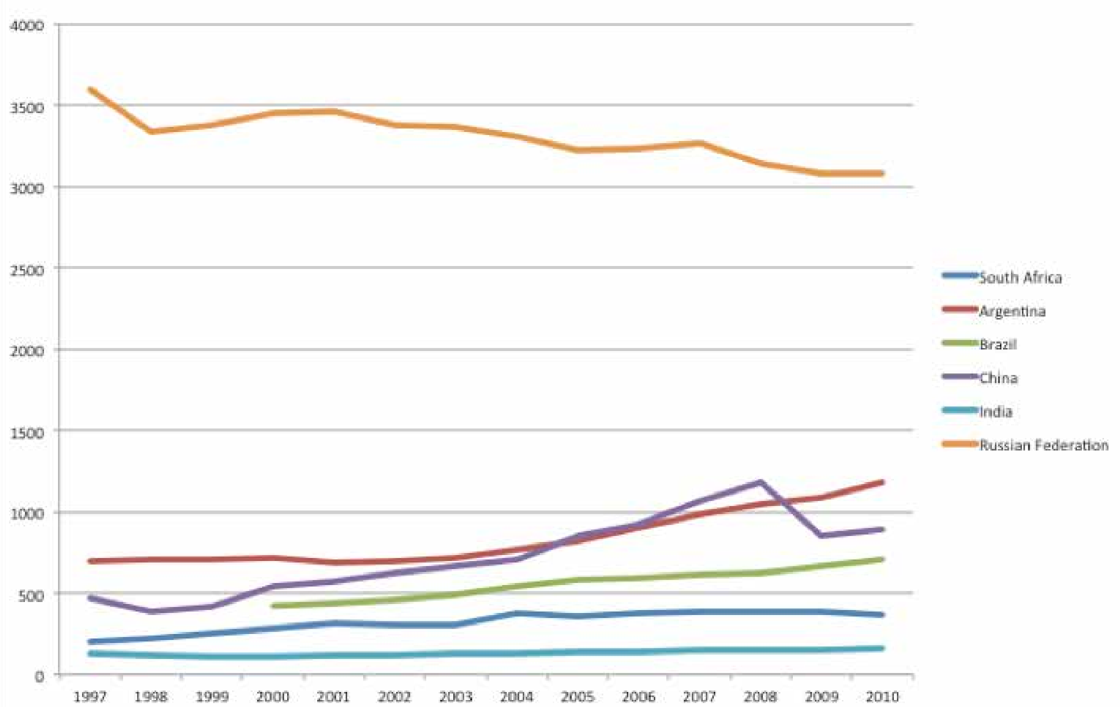


Figure 8: R&D researchers per million population



it began the sample period with more researchers per population unit than High Income countries, and continues to report an intensity of researcher employment that is comparable to developed nations.

So the answer to our question of how South Africa compares to an appropriate comparator grouping of countries defined by their level of economic development is immediate and straightforward: not well.

And this poor performance is both in terms of outputs (scientific publication) and inputs (R&D researchers).

What is more, the dynamics of the comparison imply that South Africa is increasingly falling behind over time, both relative to High Income developed nations, but also relative to the immediate comparator grouping of Upper Middle Income and BRICS countries (augmented).

Insufficient pay for academicians is thus not a feasible explanation for poor South African research performance. But perhaps the reason for this is that pay incentives for researchers are not particularly effective in general?

It is also worth noting that this poor performance in scientific research is mirrored by a changing composition of manufacturing exports. In 1998 approximately 10% of South Africa's manufacturing exports were classified as being of high technology content. Since then the trend has been resolutely downward, and by 2012 was approximately 4%.

The question we must now confront is why South Africa's research performance is so poor?

Some Explanations

There is fault with South Africa's incentive mechanisms: not enough scientists are entering research careers, and when they do enter, they do not produce enough output.

So what incentives are going awry?

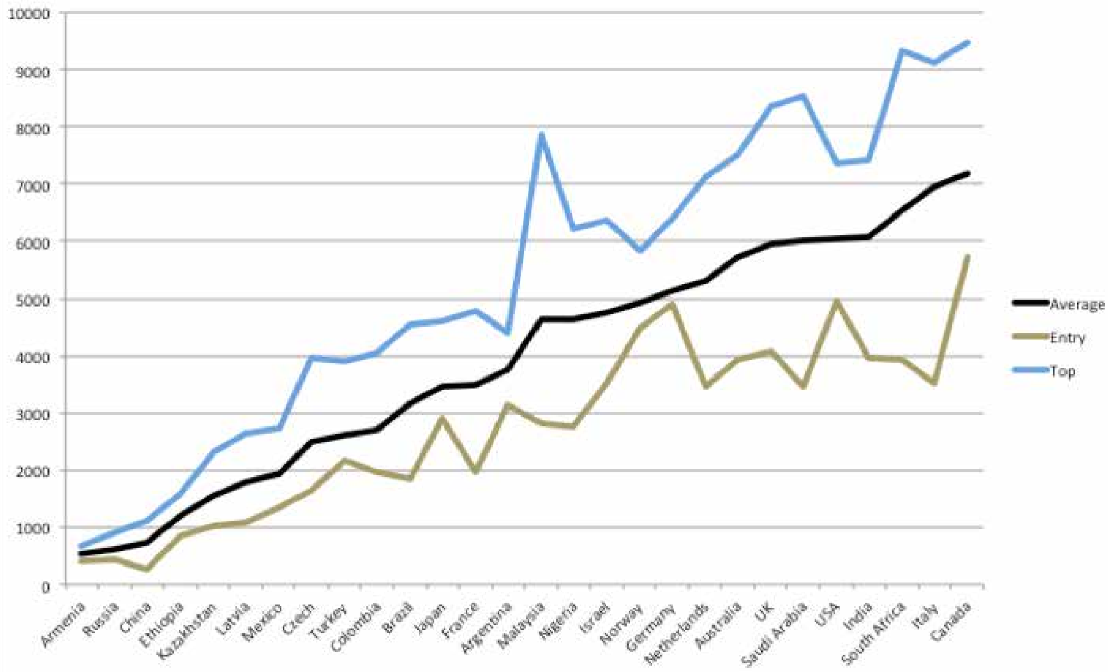
An obvious starting point is the pay that scientists receive. If South African researchers are poorly paid, incentives for attracting productive researchers would be compromised, and morale for producing research would likely be sub-optimal.

But it is difficult to suggest that this is the likely source of the problem. Figure 9 reports the mean, entry and top level pay that academics receive, adjusted for purchasing power parity, as reported for 28 countries by Altbach et al (2012).

Average South African academic salaries in PPP terms are the third highest in the world, outranked by only Canada and Italy, and ahead of the USA and the UK. Certainly academic salaries dwarf Russian levels.

Yet we have seen that South African academic productivity is certainly not amongst the top three in the world, and lags far behind the much more poorly remunerated Russian academy.

Figure 9: Comparitive Pay for Professoriate (US $ PPP)
Source: P. Altbach et al (2012)



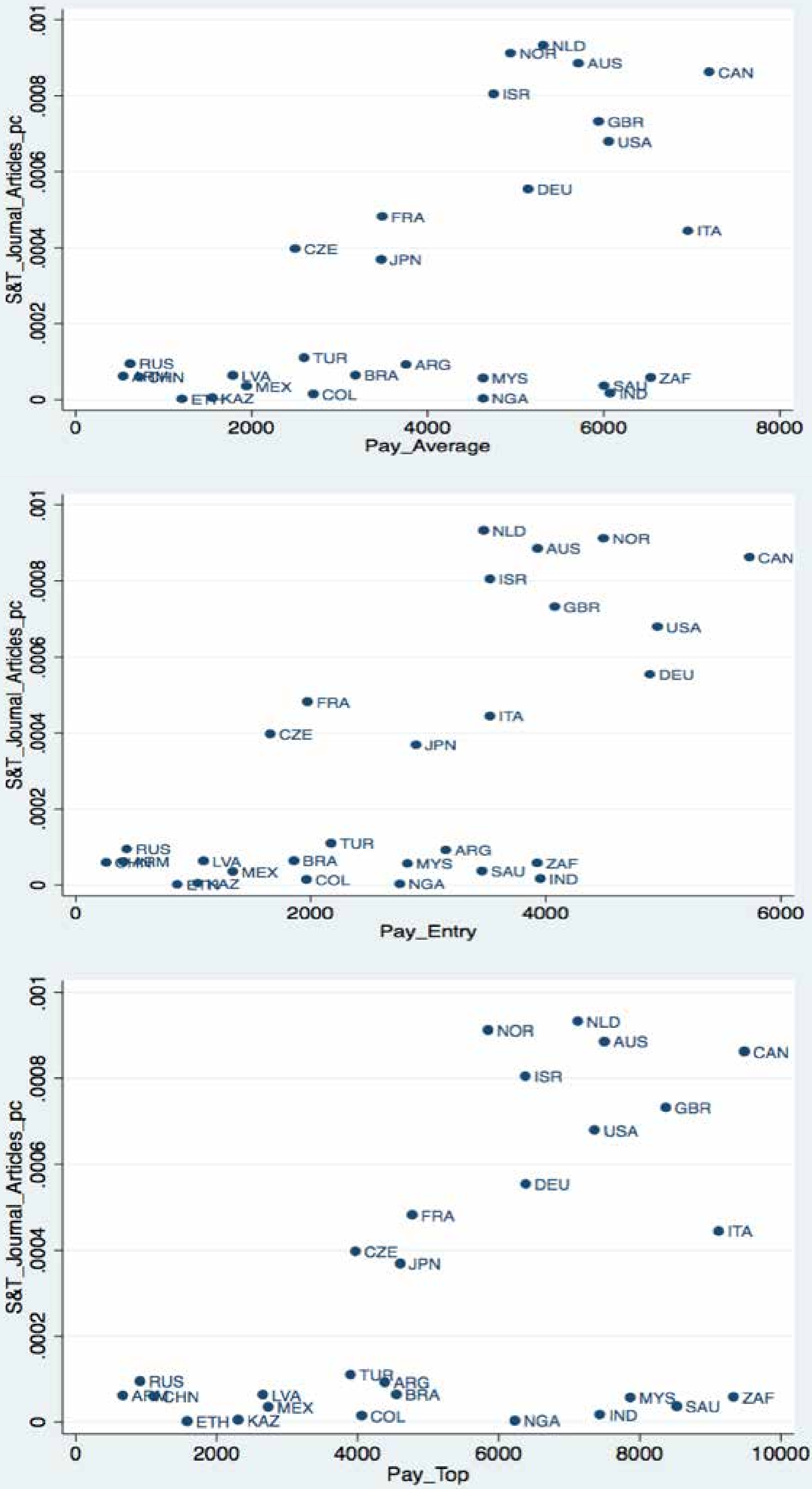
Insufficient pay for academicians is thus not a feasible explanation for poor South African research performance. But perhaps the reason for this is that pay incentives for researchers are not particularly effective in general?

Again, the evidence suggests otherwise.

Consider the evidence of Figure 10, which compares average, entry and top-end pay of academicians in PPP terms against research productivity as measured by scientific and technical journal articles per capita. In general, there is a positive association between research publication productivity and academic pay (particularly for developed countries), for all three pay measures. Equally, however, there is a grouping of countries who, despite utilising the pay incentive structure rationally by paying well, do not succeed in realising the full productivity impact the incentive mechanism would predict. These are India, Italy, Malaysia, Nigeria, Saudi Arabia and South Africa. But note also: South Africa together with India and Saudi Arabia fail most spectacularly, paying high salaries in PPP terms, and realising amongst the lowest research productivities in the sample.

Equally, however, there is a grouping of countries who, despite utilising the pay incentive structure rationally by paying well, do not succeed in realising the full productivity impact the incentive mechanism would predict.

Figure 10


S&T_Journal_Articles_pc
Pay_Average
Pay_Entry
Pay_Top
NLD
NOR
AUS
CAN
ISR
GBR
USA
DEU
FRA
ITA
CZE
JPN
RUS
TUR
ARG
BRA
LVA
MEX
MYS
SAU
ZAF
IND
COL
NGA
ETH
KAZ

Something else is the matter.

There is now strong evidence to suggest that at least part of the problem invests in the incentive mechanisms that national science funding bodies provide. This inference follows from the evidence presented in Fedderke (2013) and Fedderke and Goldschmidt (2015) on the functionality of the National Research Foundation (NRF) incentive structures.

There are a number of concerns. NRF rating mechanisms are imperfectly tied to objective research performance. Above all, funding for research is weakly linked to research performance. Consider the single most significant funding that the NRF provides in the form of its research chairs. This funding is very considerable, even by first world standards, at ZAR1.5 million to ZAR3 million per annum. The funding is guaranteed for at least 5 years, possibly 15 years, so is not only substantial but sustained. The official objective is to use the funding to attract "world leading" researchers in their fields.

Figure 11

"low", "med", "high" denotes low, medium, high propensity of being awarded NRF research chair vertical axis reports average performance in relevant metric of the group

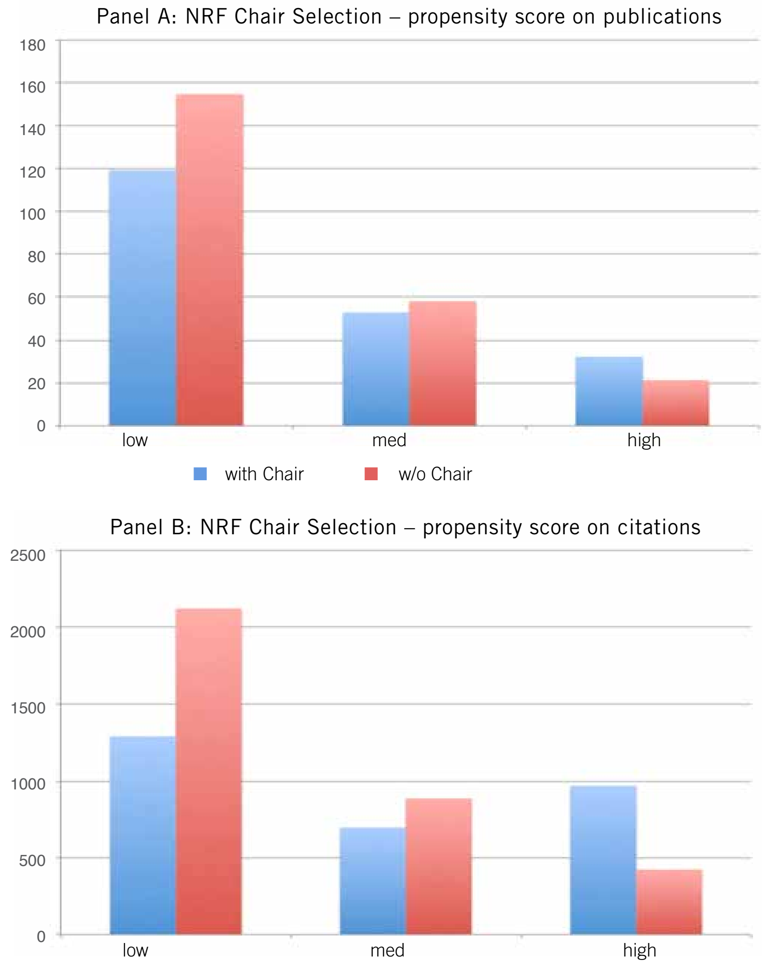
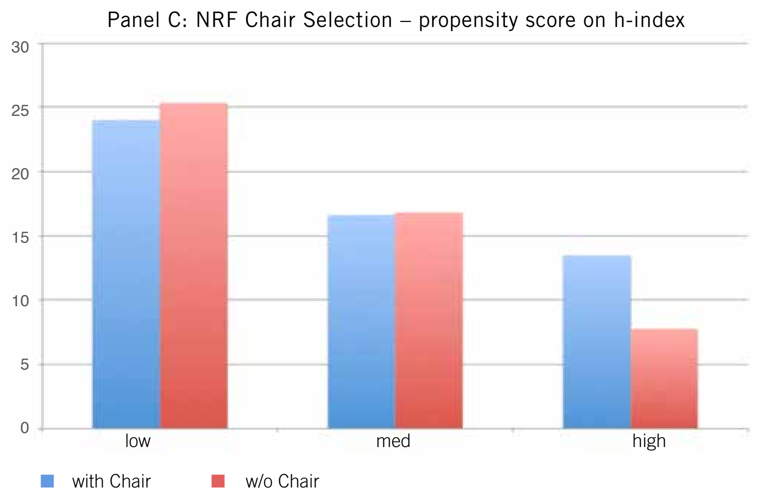


Figure 11



Source: Confraria and Godhinho (2015)

Yet of the initial set of 80 research chairs the NRF awarded, more than 50% did not meet the NRF's own standards for an A or a B rating (which are deemed to reflect world standing). What is more, when considering the likelihood of a research chair being awarded by means of a propensity score, the class of researchers *least* likely to be awarded research chairs were those with the strongest performance in terms of publications, citations or an h-score (a composite index of both absolute output and the impact of output in terms of citations). In fact, researchers that were the *most* likely to be awarded research chairs were those with the weakest performance in the quantity and impact of research produced in terms of these metrics. Figure 11 reports.

This rather neatly establishes a central point about how and when incentive structures work: when incentives are used to reward good performance they tend to work. When they are used to reward other characteristics, they do not.

With predictable consequences. The productivity impact of the NRF research chairs, despite the considerable funding allocated to them, has been weak.

For the 2009-12 period there is no statistical difference between the performance of the NRF chairs on average and A-rated researchers without chair funding, nor between the average NRF chair and researchers without chair funding who under the propensity score matching methodology had the strongest pre-award research performance. In fact, the evidence suggests that both categories of strong researchers without chair funding outperform the NRF research chairs in a number of objective research metrics. Despite a minimum 15:1 funding advantage, there is thus no statistically observable superior research performance on the part of the NRF research chairs.

In fact, what improved research performance there is in the research chairs, is substantially due to the improved performance of those research chairs that were chosen despite the fact that they had strong prior publications and citations records.

This rather neatly establishes a central point about how and when incentive structures work: when incentives are used to reward good performance they tend to work. When they are used to reward other characteristics, they do not.

In the South African science system they are not used to reward excellence, and they do not work.

Conclusion

South Africa's National Development Plan has set economic growth linked to strong knowledge production as one of its key objectives.

South Africa certainly spends money toward that end. It pays its academy well. It allocates substantial funding to education.

But as this discussion indicates, it punches well below the weight class that its level of economic development and level of expenditure would suggest.

Problems invest in the incentive structures that the national science funding bodies provide. Incentives are too weakly tied to research excellence. Funding instead pursues other objectives, leaving the realization of research productivity that is internationally competitive subject to the personal dedication and vocational commitment of individual researchers.

Such commitment is laudable. However, if we follow George Bernard Shaw in recognising that virtue alone is insufficient temptation, it does not constitute a reliable foundation for national policy.

It is time that South Africa got more serious.

FOOTNOTES

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2 The Specialization Intensity Index is measured as a ratio which in the numerator displays the square of the difference between specialization intensity of class s in country i and specialization intensity of that class in the world, while the same denominator displays the sum of the weighting of all subject areas in country i, with this ratio summed up across all subject areas.

3 This is measured as the mean citation rate of a country's set of publications in a specific subject area, in a specific period of time, for the specific document type, divided by the mean citation rate of all publications within the relevant subject area, period and document type.

4 Not all countries have data available in all the dimensions we consider.

5 Note: the apparent decline from 2010 is due to missing data for the US and UK amongst other strong producers.

6 This is confirmed by regression analysis – the pay measures prove to be statistically significant at least for our small sample.

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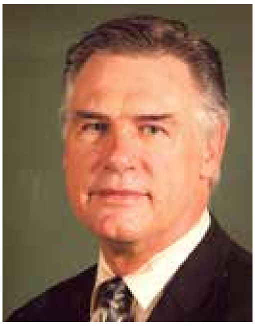
Bureaucrats Undermining Constitutional Democracy



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The thesis of the article is that unelected bureaucrats, especially in the form of regulators, are undermining constitutional democracy. As institutions have evolved this is inevitable. Although this article concentrates on South Africa the problem is not unique to South Africa.

Lord Acton's Conclusion

The renowned Catholic historian Lord Acton (1834-1902) explained the underlying forces which drive history as follows (1895: 60):

> "This [is the] law of the modern world, that power tends to expand indefinitely, and will transcend all barriers, abroad and at home, until met by superior forces, and [that] produces the rhythmic movement of history."

In short power inexorably expands until stopped by a more superior power. History accordingly is about individuals seeking power, mainly for their own benefit and their quest is only halted when they encounter a more superior power. The most obvious, and indeed, one of the oldest forms of power is State power. State power as with other forms of power can be hi-jacked for personal gain. This article demonstrates that this is indeed the case.

In his well-known novel *Heart of Darkness* (1899), the novelist Joseph Conrad (1857-1924) a contemporary of Lord Acton 1899 brilliantly considers the same issue but provides a solution to expanding powers. The question his protagonist addresses is how anyone could commit the atrocities which were committed in that heart of darkness. It is his answer to this question in relation to persons in the civilised world which holds the key. The relevant dialogue is as follows (Conrad 1899:49):

> "You can't understand? How could you - with solid pavement under your feet, surrounded by kind neighbours ready to cheer you or to fall on you, stepping delicately between the butcher and the policeman, in holy terror of scandal and gallows and lunatic asylums - how could you imagine what particular region of the first ages a man's untrammelled feet may take him into by way of solitude - utter solitude without a policeman - by way of silence - utter silence, where now warning voice of a kind neighbour can be heard whispering of public opinion. These little things make all the difference."

Conrad's message is clear. Evil is committed in the absence of constraints, social or otherwise, in the absence of institutions, and thus institutions matter. The difference between what could happen in the heart of darkness and what does not happen in the civilised world is not because of some or other characteristics of the individuals involved but because of the institutions. In the heart of darkness there were no institutions. In the civilised world there were many; the pavement, neighbours, the butcher, the policeman, the fear of scandal, the threat of the gallows or the asylum. It is all these very many institutions which make the difference. To apply Lord Acton's truism; the simple truth is that people do what they do because they can and what they do not do is because they are prevented. Where evil triumphs, institutions have failed.

It took some time for academia to catch-up with the profound insights of Lord Acton and Joseph Conrad. Institutional economics was more recently brought to the fore by academics such as 1993 Nobel Laureate Douglass North (1981,1990), North *et al* (2009), and in a similar vein Acemoglu and Robinson (2011). Institutional economics is based to a large extent on the understanding that institutions matter. Thus, on the one side, there is the never-ending attempt by individuals to expand their powers thereby gaining an economic benefit; but on the other side exist largely impersonal institutions which constrain this expansion. In modern society, institutions are Lord Acton's superior forces. In institutional economics institutions are, closely in line with Conrad, broad in nature, as stated by North (1990:3), "institutions … are the humanly devised constraints that shape human interaction." Institutions are many and varied. Nevertheless, some well-defined and accepted institutions can be identified as part of constitutional history and law. One important set of institutions relates to the separation of powers. Within the State exist three powers, executive, legislative and judicial. Institutionally these are separated in terms of the so-called Doctrine of Separation of Powers associated with Montesquieu's (1748) *The Spirit of the Laws.* These three powers or functions should be assigned to three different institutions if liberty is to exist within a State. Montesquieu may well have articulated the theory of the separation of powers, but the need for the separation of powers was understood long before Montesquieu. Thus seen from an institutional perspective a State can thus be said to exist where the three powers exist; and to avoid Lord Acton's inevitable power grab these powers must be separated. This view is accepted and not controversial. If this is so, then what one may ask is; what is the problem? The problem lies in what I have referred to elsewhere as the rise of unitary states within the State (Vivian 2011, 2012).

Montesquieu may well have articulated the theory of the separation of powers, but the need for the separation of powers was understood long before Montesquieu. Thus seen from an institutional perspective a state can thus be said to exist where the three powers exist; and to avoid Lord Acton's inevitable power grab these powers must be separated.

Rise of States within the State

The constitutional and institutional economics framework which limits both the State and individuals within the State from expanding State powers and hence the use of State for personal gain is the separation of powers. In recent year I have observed a rise of State departments and quangos, collectively referred to as State institutions, which have taken to themselves all three powers. I have called these State intuitions unitary states within the State, since institutionally a State is an institution which has these three powers. These States within the States usually hold themselves out to be regulators, some as independent regulators. They are staffed by unelected bureaucrats. Probably the easiest way to understand this is by way of an illustration. Recently, on 27 January 2015, the Financial Services Board ("FSB") currently the regulator of financial services, a quango, issued a notice pertaining to its Enforcement Committee which reads as follows:

> "The Registrar [of the FSB] and the Respondent agreed on a penalty of R250 000. In reaching the agreed penalty the Registrar took several mitigating

> circumstances into account including the fact that the Respondent has never appeared before the [FSB's] Enforcement Committee [before] and that the Respondent accepted responsibility for its actions and co-operated with the Registrar's office. The order is available on the FSB website at www.fsb.co.za.
>
> **About the Enforcement Committee**
> The Enforcement Committee is an administrative body that has the authority to impose administrative penalties and cost orders, on offenders of FSB legislation" (Emphasis added)

The FSB as a regulator forms part of the executive. However if the statement is read it seems as if the statement comes from a court of law; respondent, penalty, mitigating circumstances, appear before, the order - all of these terms would be familiar to a lawyer as part and parcel of phrases coming from a court of law. Indeed imposing an enforceable penalty is usually the responsibility of a court of law. However the matter was not decided before the ordinary courts of the land, presided over by an independent judge in the ordinary, applying the common law of the land, but was dealt with by the FSB's own court – its own Enforcement Committee. It can thus be observed that FSB has acquired a judicial function. It should also note the outcome was not arrived at by the due process of the law but by agreement. The matter was concluded on the basis of an agreement and mitigating factors were that the accused had not previously appeared before the FSB's "court", it took "responsibility" for its actions (whatever that may have been) and co-operated. The matter was not concluded via the due process of law. What would the position have been if the accused pleaded not guilty? Clearly all the mitigation considerations would have fallen away and a much increased penalty would have been imposed. In short in the place of the due process of law is coercion.

All three State powers have been consolidated within one institution. The FSB has become what I have called a state within the state. It is not an exception. There are a growing number of these.

Finally it will be noted that the FSB's "court" imposes penalties on offenders of the FSB's *legislation*. It, indeed, has its own legislation. All three State powers have been consolidated within one institution. The FSB has become what I have called a State within the State. It is not an exception. There are a growing number of these. In this case the specific piece of "law" was the General Code of Conduct for Authorised Financial Services Providers issued in terms of s15 of the Financial Advisory and Intermediary Services Act 37 of 2002. The Code of Conduct was drafted and promulgated by the Registrar, the CEO of the FSB. In short it is not legislation passed by Parliament, nor is it a regulation under the auspices of a Minister passed in terms of an enabling provision of an Act of Parliament. Neither from the agreement or facts disclosed can it be determined if indeed the code was breached since the agreement required the accused to confess to the breach and it did indeed confess. There is no indication how the R250 000 was arrived at since it too is merely consented to. It will be noted that a substantial fine was levied, R250 000. What happens to this money? It too is paid to the FSB.

The factual position is clear all three of the State powers are consolidated within one State institution. South Africa still exists as a State and maintains the three separate functions but neither the courts nor Parliament is involved in the above illustration. Many others can be cited. What has been happening is now contrasted against Articles in the Magna Carta.

Magna Carta 1215

2015 is the 800th Anniversary of the sealing of the Magna Carta at Runnymede where the Barons forced King John to concede the rights contained in the Magna Carta.

> *Even when drafted, the Magna Carta never set out to define new rights but attempted to restore or confirm existing historical rights and liberties of the English people, the so-called ancient rights of the Englishman, which the Barons argued, King John had violated (Hindley 2008: xix)*

Just after allied troops landed back in Europe marking the beginning of the end of World War II, King George VI while passing Runnymede which is situated between London and Winsor Castle remarked “that is where it all started’ (Vincent 2012:2). That was the beginning of constitutional democracy. In view of the historical occasion of its 800th anniversary and its constitutional significance, it is appropriate to consider the above developments against the contents of the Magna Carta. Most commentators on the Magna Carta hold that it is now merely a historical relic. According to this view, few, if indeed, any of the provisions have any modern application. I can only conclude those who hold that view have not read the provisions of the Magna Carta nor understand how to interpret historical constitutional documents. Constitutional documents are not read in a narrow legalistic way as maybe the case with other legal documents, such as contracts. This is generally true of constitutional documents but specifically true for ancient constitutional documents. In *S v Makwanyana and Mchunu*; 1995 (3) SA 391 CC, the Constitutional Court declared capital punishment to be largely unconstitutional Chaskalson P (as he then was) wrote (par 9):

> “It [the Constitutional Court] gave its approval to an approach which, whilst paying due regard to the language that has been used, is “generous” and “purposive” and gives expression to the underlying values of the Constitution.’

He continued to endorse the view set out in a Canadian case:

> “In my view this analysis is to be undertaken, and the purpose of the right or freedom in question is to be sought by reference to the character and larger objects of the Charter itself, to the language chosen to articulate the specific right or freedom, to the historical origins of the concept enshrined, and where applicable, to the meaning and purpose of the other specific rights and freedoms with which it is associated within the text of the Charter. The interpretation should be…a generous rather than legalistic one, aimed at fulfilling the purpose of a guarantee and securing for individuals the full benefit of the Charter’s protection.’

Even when drafted, the Magna Carta never set out to define new rights but attempted to restore or confirm existing historical rights and liberties of the English people, the so-called ancient rights of the Englishman, which the Barons argued, King John had violated (Hindley 2008: xix). It was never intended to deal clearly or exhaustively with the then existing rights. When reading the provisions of the Magna Carta one should thus see these as part of now well known “historical origins of the [constitutional] concept enshrined’ in the Magna Carta.

Further, those who usually consider the document focus to be King John and the political problems of the time, forget that it is not the king but government officials who are the main parties. The Magna Carta deals significantly with these officials.

The Magna Carta was greatly concerned about " … misuse of their powers by royal officials (Davis 1982:23)." It was concerned, in particular, with the actions of sheriffs and so-on. Not only did the Magna Carta impose constraints on the King but also government officials. With the latter it was so successful that it has taken some 800 years to re-emerge. With this in mind, some of the specific provisions in the Magna Carta are now examined in relation to the modern regulator.

No Taxation Without Consent: Bureaucrats Placing Themselves on the Private Sector Payroll

Probably the most famous provisions in the Magna Carta are those which outlaw any taxation without consent. The most obvious misuse of State power is to take money from the public by decree. That is what King John wanted to do.

> Article 12: No "scutage" or "aid" may be levied in our kingdom without its general consent …
>
> Article 14: To obtain the general consent of the realm … we will cause the archbishops, bishops, abbots … to be summoned individually by letter. To [others] we will cause a general summons to be issued …
>
> Article 15: In future we will allow no-one to levy an "aid" from his free men …

And so the fundamental principle was articulated. No taxation by the government without consent, which morphed into without an Act of Parliament. No extractions of any sort from the public without the consent of Parliament. During the ensuing centuries various attempts were made to by-pass this historical constraint with epic consequences. So, when King Charles I tried to raise taxes without the consent of Parliament the English Civil War (1642-51) was the consequence. When the British Parliament tried to levy taxes on the American colonies, the battle cry became, no taxation without representation. The American War of Independence (1775-83) was the consequence. Not even Parliament could levy taxes without consent of the taxed. Article 15 is significant for this article. The existence of that specific article makes it clear that others besides the king were imposing taxes. The ability of all others to levy taxes was thus outlawed. Parliament became the sole institution which could levy taxes.

"A founding principle of Parliamentary democracy is that there should be no taxation without representation and that the executive branch of government should not itself be entitled to raise revenue but should rather be dependent on the taxing power of Parliament, which is democratically accountable to the country's tax-paying citizenry."

The matter of taxation received some attention in the recent case of *Shuttleworth v South African Reserve Bank and others* 2014 ZASCA 157. The SA Reserve Bank ("SARB") had decided to impose an exit levy as a prerequisite to allow residents to take their own money out of South Africa. A consequence was Mr Mark Shuttleworth paid an amount of R250m under protest to SARB. He then took the matter to court. The SCA had no difficulty, rightly, in declaring the levy to be unlawful taxation. Without reference to the Magna Carta the SCA noted (at par 29):

> "A founding principle of Parliamentary democracy is that there should be no taxation without representation and that the executive branch of government should not itself be entitled to raise revenue but should rather be dependent on the taxing power of Parliament, which is democratically accountable to the country's tax-paying citizenry."

Essentially a government institution tried to levy taxes – that, as pointed out, was outlawed 800 years ago by Article 15 of the Magna Carta. Montesquieu (1748: Bk13, par5) pointed out what would happen if every government institution had taxing powers:

> "If this rule [single taxing power in a State] was not followed, the Lord and the collectors of public taxes will harass the poor vassal by turns till he perishes with misery or flies into the woods."

It is at this point we encounter the rather extraordinary section 15A in the Financial Services Act 97 of 1990 which deals with the method of funding the FSB.

> "The board may impose by notice in the Gazette levies on financial institutions and may, subject to the provisions of this section, at any time in similar manner amend, substitute or withdraw any such notice."

The FSB imposes a tax on financial institutions without consent, without Parliament, indeed without any safeguards at all. Unelected bureaucrats have achieved what King John could not do, and indeed neither kings nor parliaments thereafter have ever been able to do – to unilaterally impose taxes by decree. It is not surprising that the FSB staff complement and budget has grown by leaps and bounds since its inception. The budget currently stands at nearly R600m pa, with senior bureaucrats taking multiples of millions rands as salaries. The current proposal is to double up regulators with the introduction of the Twin Peaks model. Once can anticipate the next peak will cost another R600 m pa. Unelected bureaucrats have managed to simply place themselves on the private sector payroll, with unlimited taxing capacity. This is precisely what Lord Acton indicated would happen – power expands naturally, unless stopped.

The outlawing of government courts, morphed with the doctrine of the separation of powers was sufficient to avoid this problem resurfacing for some 800 years. Until now, that is.

Unelected Bureaucrats' Courts

A further evil identified in the Magna Carta was government officials having their own courts. This was outlawed by Article 24.

> Article 24: No sheriff, constable, coroners, or other royal officials are to hold lawsuits that should be held by the royal justices

With the passing of time this Article morphed into the supremacy of the courts of law within the doctrine separation of powers. Government departments or quangos cannot have their own courts. Again, the fact that the Magna Carta outlawed government courts is an indication that at the time this was a significant problem. The outlawing of government courts, morphed with the Doctrine of the Separation of Powers was sufficient to avoid this problem resurfacing for some 800 years. Until now, that is.

Lex Talionis – Principle of Proportionality

One of the fundamental constitutional principles which is increasingly being violated is the imposition of fines, which historically and constitutionally is a judicial function. Increasingly Parliament and now government officials are taking it upon themselves the right to impose fines. The *Lex Talionis*, or the law of proportionality, is an ancient legal principle. The fine must be in proportion to the injury; an eye for an eye. In the above illustration the fine was R250 000, a very significant amount. What however was the harm caused. None whatsoever. The principle of proportionality appears in the Magna Carta.

> Article 20: For a trivial offence, a free man shall be fined only in proportion to the degree of his offence …
>
> Article 21: Earls and Barons shall be fined only by their equals, and in proportion to the gravity of their offence.

Now clearly one of the reasons why sheriffs and other officials wanted their own courts and to make their own laws was to impose excessive fines because they kept the money. This was simply extortion and coercion using State power; if they could not impose taxes then they could impose fines.

So what happens to the fines imposed by the FSB's Enforcement Committee?

The separation of powers, adjudication by impartial persons, trial by jury, and the rule of laws and not of men. In 1215 the law of the land was the common law– long before parliamentary law existed. As is said in the English legal tradition, it is that law which rests safely in the breasts of Her Majesty's judges.

As indicated above the FSB keeps the fines imposed and collected. Something outlawed 800 years ago. Section 6D(2)(a) of Financial Institutions (Protection of Funds) Act 28 of 2001 reads "The enforcement committee … impose a penalty by ordering the respondent to pay a sum of money to the board …' It imposes its own taxes and fines and keeps both! The FSB managed to improve on the Sheriff of Nottingham, he could not get taxing powers or the power to collect fines.

Unelected Bureaucrats Making Their Own Laws

Article 39 of the Magna Carta has been revered around the world for centuries as the article which ushered in the Rule of Law. It is regarded by most as the Crown Jewel in a magnificent sparkling crown. It reads:

> "Article 39: No man shall be seized or imprisoned, or stripped of his rights or possessions, or outlawed or exiled or deprived of his standing in any other way, nor will we proceed with force against him, or send others to do so, except by the lawful judgement of his equals or by the law of the land."
>
> (Emphasis added)

In this article all is to be seen. The separation of powers, adjudication by impartial persons, trial by jury, and the rule of laws and not of men. In 1215 the law of the land was the common law – long before parliamentary law existed. As is said in the English legal tradition, it is that law which rests safely in the breasts of Her Majesty's judges. No person would henceforth be deprived of his property by government courts in terms of made-up government laws.

As indicated above, the R250 000 was not paid as a consequence of an allegation of breaching any parliamentary law let alone the common law. Quangos are making "laws", each of which points to more income arising out of fines going to the quango. 800 years ago the Magna Cara outlawed any further notion that administrations could make laws.

Probable Cause

A problem the public will face is harassment, fishing expeditions with the hope that something will be found to be used to extort a confession and a fine. This is not confined to South Africa. Recently Sir Cliff Richard's home was raided, at the same time filmed and broadcast life on TV. Surreptitious allegations were made that somewhere in his distant past Sir Cliff may have been involved in sexual impropriety. Clearly the purpose of the television broadcast is to entice persons to come forward and lay accusations against Sir Cliff. At first the British police vehemently denied they had advised the television station. When it became clear that it could only have been the police, they conceded they had tipped off the media. The police lied.

Nowadays a small and declining measure of protection comes from the Doctrine of Probable Cause. Article 38 of the Magna Carta contains the genesis of the doctrine of probable cause. No-one can be harassed by government officials unless probable cause exists. There can be no stopping, no searches, and so on without probable cause.

It is a common occurrence for the FSB to simply state it received a complaint and then refuse to reveal the identity or substance of the complaint.

> Article 38: In future no official shall place a man on trial upon his own unsupported statement, without producing credible witnesses to the truth of it.

In the above illustration it will be noted the complainant, if indeed one existed, played no role. Indeed it is a characteristic of the modern regulator that seldom, if ever, does the complainant play a role. It is a common occurrence for the FSB to simply state it received a complaint and then refuse to reveal the identity or substance of the complaint.

In Summary

The above Articles from the Magna Carta indicate some of the provisions detailing the unacceptable practices of King John's officials. The personification of these evil officials has come down to this age as latter day Sheriffs of Nottingham. Article 48 set about rooting out the evil customs of government officials under more constraints of the law.

> "Article 48: All evil customs relating to … sheriffs and their servants … are at once to be investigated … and are to be abolished completely and irrevocably …"

And Now the Truth Begins to Dawn

Unelected bureaucrats are once again taking over all three powers of the State and society is returning to the position before this was outlawed 800 years ago. If lawyers are confronted with the above narrative, their predictable response, no doubt, would be that the government officials are acting in terms of what is known as Administrative Law and then leave it at that. They would not question if Administrative Law itself is unconstitutional. This is however changing. Recently Professor Philip Hamburger (2104) published his comprehensive research in his book; Is *Administrative Law Unlawful*? He concludes administrative law is indeed unlawful. Even without reference to the Magna Carta there can be little doubt at all the Professor Hamburg is correct and as time progresses this will become increasingly clear.

For some time now I have pointed out that "unitary states" operate within the State. Recently Professor Michael J Glennon (2014) published his comprehensive research on a similar point in his book *National Security and Double Government*. He notes the existence of governments within the Government. He notes that the second government is not constrained by what he calls the "Madisonian Institutions" – the President, Congress, Senate and Judiciary – what I have called the Separation of Powers. His analysis is however much narrower than mine. He concentrates on issues of National Security. In my view the "unitary states" within the State are much more pervasive. They are not confined to national security.

Conclusion

If the above were not bad enough, there is worse. If Lord Acton's insight is reconsidered- if power has expanded- it is a clear indication that the constraining institutions have failed. How is it that in a constitutional democracy could so many "unitary states' within the State could evolve? It can only be if the institutions themselves have failed especially the institution of Parliament. It is clear that bureaucrats draw up legislative proposals which are then merely rubberstamped by "Parliament."

The Magna Carta worked historically because the executive was on one side and elected representatives on the other. In law there is the doctrine of substance over form. The form is the same, Parliament, the substance is different. It is the substance not the form which provides the institutional safeguards. The existence of unconstitutional "unitary states' within the State points to a much more fundamental problem: Parliament as an institution has failed.

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Conservation, Competition and Industrial Organisation in the South African Fishing Industry

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Introduction

In a recent paper delivered to the Competition Commission, Mnisi and Lekezwa (2014) argued that, despite the economies of scale that characterize fishing and fish processing, the Department of Agriculture, Forestry and Fisheries ("DAFF") should use the forthcoming renewal of long-term fishing rights (due in 2020) to fragment access to fishing resources. More particularly, they suggested that DAFF should actively oppose the industry's natural tendency to consolidation:

> During the 2020 review of fishing rights, DAFF has the opportunity to restructure the industry by breaking (the) path dependency of reconsolidation that the industry has been locked in. In the short run such an approach may cause job losses, however the long run ownership and economic participation would be diverse.

This is not the first such call, and is unlikely to be the last. Unfortunately, the meaning and implications of such ownership diversity are not made explicit; all one has is a presumption that it would be "a good thing" and would involve small- and medium-scale black-owned and managed enterprises. Even less clear is the cost that would have to be paid, and who would pay it. The authors certainly recognise that such an intervention would have short-term costs, but seem to imply that these would translate into long-term benefits. Unfortunately no information is offered as to how such a transition could emerge. Indeed, should the process fail to deliver the benefits they postulate, the international and domestic viability of the industry, and the financial competitiveness of its products, could be severely compromised. This paper explores the evolving structure of the industry, the forces underpinning it, and the likely consequences of destabilizing the long-term rights reallocation, as advocated by Mnisi and Lekezwa.

On Monopolies

It is important to recognise that natural monopoly characterizes each of the three segments that dominate the South African commercial fishing sector. In other words, within the hake, small pelagic (pilchard and fishmeal), rock lobster and squid fisheries, big firms can produce more cheaply, less riskily and more profitably than small ones. Left to themselves, these sectors would soon be dominated by a few large firms.

"Monopoly" is a strong and value-laden term. In the realm of resource economics, the monopolist is often described as the environment's best friend; however the term smacks of consumer exploitation, rent seeking and vested interests. A more nuanced analysis is needed, one that allows for economies of scale and scope. This would recognise that market leaders often introduce new products, promote new technologies, and offer a broader range of goods which they sell at lower rather than higher prices. Roughly 65% of this country's hake is exported, and in foreign markets local producers need all the advantages that their size can provide. In the home market our 'monopoly' producers are actually operating in a globally contestable arena - similar products can be introduced easily and cheaply from abroad. If further fragmentation of the industry becomes a serious policy objective, the economic consequences could be profound.

Indeed all had been depleted well below their maximum sustainable yields when, in the early 1990s, the state began management through operational management procedures, i.e. rule based systems that tailor fishing effort to sustainable levels

The Competition Commission is certainly aware of some aspects of the problem. In their abstract Mnisi & Lekezwa state,

> Authorities have found that being vertically integrated (harvesting, processing and marketing) is critical to effectively compete in the fishing industry.

They suggest, however, that,

> The .... advancement of transformation and competition in the fishing industry requires innovative thinking on the part of regulators. The objective of policy formulation should be aimed at easing barriers to entry along the fishing industry value chain.

The focus here is on the processing of fish rather than on catching them. Again, however, much is left unclear: in particular how will the reallocation of permit by DAFF enhance the viability of small-scale fish processors along value chains whose farthest ends lie in foreign markets?

The Nature of the Problem

In order to demonstrate the dimensions of the problem posed by such vague proposals, it is sensible to describe fully the stock externalities and the economies of scale and scope present in South Africa's commercial fisheries.

First an important point should be stressed: the major commercial fisheries of South Africa are mature. In other words there are no longer economic rents to be had from mining down the stock. Indeed all had been depleted well below their maximum sustainable yields when, in the early 1990s, the State began management through operational management procedures, i.e. rule based systems that tailor fishing efforts to sustainable levels (focusing on the so-called Maximum Sustainable Yield (MSY) and allowing stock recovery if recruitment declines.

Secondly, it should be pointed out that South Africa's coastline differs from those of Europe and North America in being comparatively unindented. Whereas the Northern Hemisphere experienced relatively recent ice ages marked by glaciation which left deep coastal inlets and consequently an abundance of deep and secure anchorages in many countries, South Africa, did not and therefore has few safe anchorages. Our few large ports have to cater for small and large fishing vessels, and only a few small fishing ports serve our shores. In effect there are three commercial fishing zones:

- an inshore zone, heavily fished by recreational anglers from beach and rocks, and from beach-launched ski-boats;
- a deeper inshore zone fished by small commercial vessels operating out of the few small ports that exist along the coast and targeting line-fish and West Coast Rock Lobster;
- and a deep-water offshore fishery that typically involves capital-intensive fishing for species such as the Hakes, Pilchard & Anchovy, Squid and South Coast Rock Lobster. These operations typically also involve scale economies.

The situation is most clearly seen in the harvesting and processing of hake. South Africa's offshore hake trawl is the most valuable component of the country's fishing industry. Its annual landed catch is typically worth roughly R4 billion in 2015 prices, much of which is exported, and it directly provides 6500 people with employment, with at least another 25 000 finding jobs in associated industries such as vessel repairs and chandlering (supplies). It is stable, has a good safety record and was an early mover towards BEE.

In the colloquial sense, the industry's members have demonstrated a mature willingness to sacrifice short-term yields for long-term stability

The offshore hake trawl is 'mature' fishery, in the sense that profits have long been based on sustainable harvesting rather than mining down the resource stock; all 'get rich quick' opportunities are long gone. In the colloquial sense, the industry's members have demonstrated a mature willingness to sacrifice short-term yields for long-term stability – this has manifested itself in a number of ways, from the industry's determination to achieve recognition by the Marine Stewardship Council (achieved in 2004[1]) to industry-funded research into the implications of activities like 'high grading' (meeting a given quota by only bringing in the very best fish, having thrown back inferior ones; the returned fish are dead, so the quota under-represents the impact on the resource). Quota holders also agreed that the resource should be further protected by setting aside substantial selected areas in which large mature hake and other by-catch species such as monk and kingklip could safely breed and spawn. It is, in other words, an industry which recognises that its long-term survival rests on the health of the resource it harvests. Indeed, the industry's focus on 'corporate responsibility' is increasingly translating into an assumption of responsibility for the well-being of the ecosystem. Historical trawl grounds are now ring-fenced to confine the impact of trawling; a benthic impacts study is being part-funded by industry, as are the costs of the observer programme now being used to better understand the dynamics of the resource.

Indeed I&J had a local monopoly till 1964 when Sea Harvest began operations, though foreign vessels often fished in what is now the South African EEZ until 1977.

The rationale for the use of long-term access rights to a fishery is to provide a secure platform for investment and to incentivize responsible management of the resource. It has been remarkably successful in both regards, and any threat to long-term rights clearly warrants scrutiny. Since the problem seems to lie in the path-dependant oligopoly structure mentioned by Mnisi and Lekezwa, the sector's industrial structure requires analysis.

Unlike most northern hemisphere fisheries, South Africa's hake trawl has always been industrial. A small longline and a tiny handline sector do exist which together provide roughly 10% of the total catch. The fishery has been a modern mechanized one since *Irving and Johnson* began operations in the 1890s. For much of that period it has been a de facto oligopoly. Indeed I&J had a local monopoly till 1964 when Sea Harvest began operations, though foreign vessels often fished in what is now the South African EEZ until 1977.

2005 saw the allocation of long-term (fifteen year) rights to the offshore hake trawl sector, the rights being shared across forty-nine (later raised to fifty-one) permit holders. In short order, however, these formed themselves into first nine, and then eight, de facto groupings. The level of concentration is consequently high: the three largest rights-holder clusters hold 75.7% of the *offshore* quota and operate 70% of the fifty vessels in regular use, and only one cluster has under 5% of available quota.

The reasons for this clustering are not hard to find. It has three fundamental drivers. The simplest is the need to spread risk. With a single vessel a firm carries all of its risk itself; in a quota-sharing cluster with two other firms, each with one vessel, if one boat is unable to leave harbour, the week's catch does not fall by 100% but by 33%.

Scale and Scope

Economies of scale are also clear to see; bigger is often more efficient. A simple physical example demonstrates the issue: one can double the size of a vessel without doubling the steel that goes into it, the crew needed to run it, or the size of its engine room. Hence one more than doubles its storage capacity and less than doubles it mass (and possibly its cost). The resulting longer vessel moves more easily through the water and runs at a lower cost per ton of landed fish. At company level the same is seen: the management need not double if production is doubled. The upshot again is that increases in size tend to decrease average costs.

Economies of scope are a trickier, but equally important, concept. The wider the range of products one can produce, the more market niches one can fill and the longer and steeper the value chains at one's disposal. If one looks at the two largest firms operating in the sector, the effect of size on the value chain becomes clear. A glance at their website showed one firm providing twenty-four processed hake products in addition to the conventional offerings of chilled or frozen gutted fish, while the range offered by the other was similar. Smaller operations cannot match such product diversity. The size and broad range of target markets to which these value chains allow access helps inoculate larger firms against market and exchange rate risks. Not only is their return per ton of quota typically greater, it is also less risky, and because shore-based processing is involved, it is also more labour intensive, increasing job opportunities for the local population.

Maintaining their competitiveness in a global market makes demands on local producers; high amongst these is security of supply. Vertical integration along the value chain is an obvious method of achieving such security. Another demand that global buyers make of local exporters is food safety in the form of HACCP compliance. Again, achieving this involves high overheads that are best spread over a large output.

The reality, however, is that, though permits were supposedly only allocated to those with a vested interest in the industry and a demonstrated ability to catch fish, many of those receiving permits quickly became holders of 'paper quota' as they traded it for shares in larger companies in which they became sleeping partners.

Rights and their Meaning

Complete and secure property rights breed efficiency. Elsewhere in the world most fisheries access rights (quotas) are tradable, such as the individually tradable quotas (ITQs) so often discussed in textbooks. These allow more efficient fishers to purchase permit from the less efficient. In theory the rights finish in the hands of those best equipped to use them. When value chains are steep the quota is often purchased by processors who operate their own vessels in order to achieve vertical integration and increase economic efficiency.

However, Government has insisted that fishing permits in South Africa should not be tradable despite the efficiency gains such tradability promises. The rationale is that tradability of permits allocated as part of a BEE process would risk being a tool to enrich politically connected black rent-seekers. The problem is clear. The reality, however, is that, though permits were supposedly only allocated to those with a vested interest in the industry and a demonstrated ability to catch fish, many of those receiving permits quickly became holders of 'paper quota' as they traded it for shares in larger companies in which they became sleeping partners. It seems likely that this is one of the Competition Commission's concerns, but it is not clear how their proposals will address it.

It has been argued that even a monopolistic harvester of hake would have little power over consumers: there are too many competing products. However, there is strong cause for concern at the prospect of fragmentation of fishing rights. In the local market most fresh and frozen/processed fish is traded through a small group of supermarket chains possessed of well-demonstrated monopsony buying power. While a bilateral monopoly might achieve an outcome similar to that of a competitive market, having a multitude of small fishers selling into such a monopsony would be to condemn them to a lifetime of low prices and low incomes.

This concern is not unique to the hake fishery; in the past rock lobster was marketed through a cooperative system which spread the costs of purging and marketing lobsters on a pro-rata basis across members. Membership was voluntary and it was noticeable that small operators were amongst the first to abandon the system, despite the clear advantages it offered. It required a pre-commitment to fixed costs in a world of uncertain revenues. In a world of asymmetric power the resulting risks were simply too great.

Conclusion

Why has this apparently irrational desire to fragment the fishing industry arisen, and why is it so commonly expressed? Three reasons seem to lie at the heart of the problem. One is easily disposed of: there is a common perception that the fishing industry is untransformed. In reality the three biggest firms in the industry are either public companies themselves, or components in public conglomerates. The biggest shareholders in South Africa are pension funds holding assets on behalf of a racially mixed workforce, and the management and senior staff of the fishing companies have long been similarly mixed. The second reason is the innate fear of monopoly power and unjust pricing, a fear rooted in the works of Thomas Aquinas and Adam Smith, but not relevant to an industry that exports most of its catch, and whose products have numerous close substitutes. It is the third reason that is most difficult to overcome, for it is based on the old lie that giving a man a fish feeds him for a day, but teaching him to fish feeds him for a lifetime.

The reality is cruelly different: letting more and more people fish merely condemns them to poverty. To increase fishermen's incomes one has to increase their catch per unit effort, and that means enlarging the stock of fish. More small firms will mean a race to deplete the stock, typically breaking the rules that regulate fish mortality along the way. To have firms whose individual incentives are compatible with maximizing industry level profits, one needs a collusive oligopoly with long-term rights. It is not surprising that the competition commission shudders at the notion. But it is imperative that they think seriously about the situation.

DAFF would like to see a stable resource that yields the maximum possible sustainable profit. They cannot manage the fish in the sea, but they can manage the fishermen. That task is eased when the incentives facing fishermen are aligned with the imperatives of fisheries managers. As experience has shown, this is achieved by the allocation of stable long-term rights to a few large groups; clustering provides economies. Any attempt to fragment the industry will encourage irresponsible short-term rent seeking. The current condition of such formerly high-value inshore sectors as abalone and West Coast rock lobster shows what happens when access is fragmented and rights are insecure. The warning should be clear to all.

FOOTNOTES

1 MSC certification has yielded substantial rewards – a recent study showed that revenue had risen by 30%. This could only have been achieved with the buy-in of large role-players who could afford the initial costs incurred to achieve the whole industry's certification

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How Can Africa's Regional Integration Agenda Reflect 21st Century Trade Developments?

There is broad agreement that regional integration makes sense for Africa. The challenges of small markets, small economies, as well as the specific geo-political configuration of the continent with many land-locked countries provide convincing support for an integration agenda.

'Developmental regional integration' has become an important focus in the African integration discourse. The high level definition of 'developmental regional integration,' is compelling. Integration has to address the development challenges of unemployment and poverty in Africa. This developmental integration agenda is anchored on three pillars;

- market integration,
- industrialisation,
- and infrastructure development.

Given the fragmented nature of the continent, the integration of small markets to reap the benefits of economies of scale and scope, makes sense. Industrialisation to enhance the capacity to produce tradeables, perhaps Africa's fundamental challenge, is well acknowledged, and the importance of addressing Africa's infrastructure deficit is not contested. The challenge is to move from the persuasive political rhetoric of developmental regional integration to a practical policy and governance agenda that provides the incentives and legal certainty for investors, producers, and workers to take decisions that, in aggregate, deliver real development outcomes.

The markers of trade and competitiveness in the 21st century have important implications for a developmental regional agenda in Africa. Review of select trade and integration policy issues indicates that these global developments are not yet systematically integrated in a coherent African integration agenda. If integration is to deliver the expected development outcomes, the agenda has to address the competitiveness challenges of the 21st century. Focus has to shift from border issues such as the import tariff to behind-the-border issues such as standards, services, investment and competition regulation.

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Trade and competitiveness in the 21st century

Baldwin provides a cogent description of trade in the 21st century. Key features of global trade include increasing trade in intermediates and trade in services. 21st century trade patterns reflect global interconnectedness, fragmentation of production in complex value chain configurations, and the increasing servicification of goods. The growing importance of developing countries in clusters of production excellence is also evident in global trade figures. The products of Factory Asia find their way into households on all continents, including Africa. Brazil sets benchmarks in agricultural production and trade and India has become a hub for a range of services sectors.

Competitiveness in the 21st century is anchored in the enlarged feasibility set of opportunities from which business can choose to enhance input-output relationships in a chain of value enhancement that, in many cases, measurably transcends the production possibilities of single-location production. The organisation of production in value chains raises the profile of investment decisions for competitiveness. Technology developments have contributed to reduce the costs and enhance the efficiency of producer services, such as transport, communication and finance, enhancing broad-spectrum competitiveness and facilitating trade. These developments are seen in the growing services-intensity of products. In short, the investment-services-trade nexus is central to competiveness in the 21st century. This point is clearly articulated by Baldwin.

21st century trade policy has to address non-tariff barriers and include behind-the-border issues such as services, investment and competition.

The economic realities of the 21st century require new approaches to trade policy. Trade policy that relies on traditional policy tools such as the import tariff and primarily concentrates on border measures to regulate trade is simply not adequate to effectively govern 21st century trade. 21st century trade policy has to address non-tariff barriers and include behind-the-border issues such as services, investment and competition.

The pernicious effects of non-tariff barriers (NTBs) have become, specifically in an African context, a particular trade policy concern. The relationship of many NTBs to regulation highlights the shift of trade policy emphasis to matters of domestic regulation and the importance of regional or multilateral approaches to regulatory convergence, harmonisation and mutual recognition. Some of these NTBs are associated with non-tariff regulatory measures designed to achieve legitimate public policy objectives; but their implementation may well change the legitimate measures into NTBs. NTBS are also often associated with customs and border management procedures.

Investment aspects of trade policy have to be a defining feature of a 21st century trade policy. The fragmentation of production in value chains, involves complex investment location decisions, influenced by cost and access to inputs, as well as the nature and quality of regulation. Effective investment governance, including remedies that are accessible to private parties, has to be part of this policy equation.

Services are not only the connectors between stages of a value chain, but also contribute significantly to production activities. Access to good quality, reliable supply and competitively priced services are vital for competitiveness and facilitation of trade. Addressing regulatory barriers to competition in services, through reform, harmonisation and mutual recognition, is an essential part of a services liberalization agenda.

Competition regulation is an essential component of economic governance, thereby contributing to efficient and equitable market outcomes. Regional and global value chains and associated market configurations require competition rules that transcend national jurisdictional boundaries to check anti-competitive practices that have cross-border effects.

A trade policy agenda centred on these new generation trade issues involves new players, including sector regulators, services suppliers and government departments with specific sector responsibilities. Their input to the development of a comprehensive services strategy and, specifically, a trade in services strategy is important, as they understand sector dynamics and role of services in competitiveness.

Africa's integration agenda in the 21st century

African countries will soon be launching the most ambitious integration project yet. The member states of the African Union have agreed to establish a Continental Free Trade Area (CFTA), and the negotiations process will be launched at a Summit in June 2015. It is therefore opportune to reflect on the integration experience, and take into account 21st century trade and broader economic developments. The CFTA provides impetus to shape a new integration agenda for Africa's development.

A 21st century African integration agenda should reflect the dynamics of global investment, production and trade. The globally interconnected nature of investment, production and trade motivates strongly for a regional integration agenda that is outward-oriented, supporting not only intra-African integration, but also integration into the global economy. The core focus of the regional integration agenda should be competitiveness. The adoption of an inward oriented model, supporting a large import substitution project, will of necessity limit the choices of firms and circumscribe the development of competitive enterprise. Outward-oriented integration has important implications for the choice of pathways to industrialisation and the specific rules that will shape choices of firms to source inputs, decide on production technologies and seek markets for their products.

The real agents of integration are investors, producers, traders, workers and consumers, and they should actively be involved in the design and implementation of the integration agenda.

The real agents of integration are investors, producers, traders, workers and consumers, and they should actively be involved in the design and implementation of the integration agenda. The decisions by these agents, to engage in economic activities that have cross-border effects, in aggregate, deliver regional integration outcomes. To make good decisions they need, amongst other things, access to information, legal certainty and remedies to resolve problems, should the need arise. In other words, the agents of integration need transparent, rules-based integration arrangements.

New emphasis on market integration

The African integration agenda is still predominantly a market integration agenda. Negotiations to establish Free Trade Areas (FTAs) usually begin with tariff liberalisation. The import tariff is a very visible and politically very popular trade policy instrument. For some countries it is an important source of government revenue. An increase in the import tariff is also, as a result of its domestic price raising impact, a very effective means of protecting domestic industry from import competition. As such, it has become an important industrial policy instrument for some countries. The fact is however, that the import tariff may be quite impotent to address real competitiveness challenges faced by domestic producers, such as energy costs and reliability of supply. The impact, on consumers, and producers requiring the products as inputs, is also very seldom factored into the real cost of using the import tariff.

In most regional economic communities (RECs) there has already been substantial tariff liberalisation. In some cases there are still sensitive products that are excluded from tariff liberalisation. Of more concern, perhaps, is the reintroduction of tariffs or the implementation of domestic taxes or levies on imports. A case brought by Polytol Paints against the government of Mauritius, following the increase of a tariff that had been reduced in the context of the Common Market for East and Southern Africa (COMESA) free trade area, was a welcome test of the rules-based nature of tariff liberalisation. Under the new Protocol on the SADC Tribunal, private parties, unfortunately, do not have standing to contest such policy reversals. Commitments to liberalise tariffs form an integral part of rules-based market integration, without which traders do not have legal certainty as regards intra-regional trade.

More transparent and efficient implementation of regulations on standards, the simplification, standardization and harmonization of customs and border management procedures would go a long way to facilitate cross-border trade.

Rules of origin (RoO) are an essential feature of a preferential trade arrangement, and are closely associated with the applicable tariff regime. Compliance with the RoO is necessary to benefit from the lower rates of duty, ensuring that only products originating in the preferential trade area benefit from the negotiated tariff preferences. Such prevention of trade deflection is the primary function of RoO. The rules can, however, also be used as an NTB to protect domestic producers from import competition. Restrictive RoO are often associated with clothing and textiles, as well as agri-processed products. These are two sectors where many African countries do have productive capacity. Intra-regional trade in these products could well be promoted by less restrictive RoO. Reform of restrictive RoO has to be a priority to boost intra-regional trade.

It is well recognised that eliminating NTBs is essential for regional integration. Some of the notable NTBs in RECs are related to customs and border procedures, and regulatory issues such as standards (sanitary and phyto-sanitary measures (SPS) and technical barriers to trade (TBT)). On closer examination it is often the manner in which these measures are implemented, that frustrates trade.

More transparent and efficient implementation of regulations on standards, the simplification, standardization and harmonization of customs and border management procedures would go a long way to facilitate cross-border trade. A comprehensive, detailed trade facilitation programme has to be part of the regional integration agenda. While the online NTB notification mechanism increases transparency with respect to NTBs, it is not an effective NTB elimination mechanism. A dispute resolution process, with access for private parties, is important.

Private parties produce and trade; they encounter NTBs and expeditious resolution of disputes is essential for business in the region.

Infrastructure-services linkages

The poor state of road, rail and communications infrastructure adds to the costs of doing business in Africa. Infrastructure development projects have become an important focus of the African integration agenda, at REC and continental levels. Financing large infrastructure projects, particularly cross-border infrastructure, poses very specific challenges that regional and continental development finance institutions are grappling with. It is also now recognised that the development of physical infrastructure needs to be accompanied by appropriate regulation to govern competition, pricing, and access to infrastructure services. Regulation features in the trade in services agenda and also in the services sector development strategies of some RECs and organisations such as the African Development Bank. The linkages between the infrastructure development agenda and the services agenda provide strong motivation for the adoption of sectoral approaches to the infrastructure services agenda, for sectors such as transport, communications and energy.

Industrial development

Industrial development enjoys priority focus at national level in African states, increasingly at REC level, and also at continental level in the Plan of Action for the Accelerated Industrial Development of Africa (AIDA).

Industrial development discussions are closely linked to developments in commodities sectors, where beneficiation and value addition and the promotion of regional value chains are important policy objectives. Manufacturing still enjoys important focus in industrial policy, while the linkages, and relationships across agriculture, industry and services sectors are yet not clearly captured in industrial policy development. The deliberations on regional industrial development have not produced a clear statement as to what a regional industrial policy is.

Investment and, in particular, foreign direct investment with associated technology and skills transfers, is essential for industrial development and diversification.

The regional industrial development agenda is closely linked to the market integration agenda. Without effective market integration, it is not possible, for example, to develop regional value chains. Investment and, in particular, foreign direct investment with associated technology and skills transfers, is essential for industrial development and diversification. The development of standards and quality assurance infrastructure is an integral part of developing an industrial sector. At a regional level, harmonization and mutual recognition of standards plays an important role in enhancing industrial competitiveness.

There has been an impressive increase in the number of African countries that have developed competition laws and policies, and established competition authorities. While this is an important step in national market governance development, this is not sufficient to provide effective market governance in a regional integration context. The Common Market for East and Southern Africa (COMESA) is at the forefront of regional competition law and policy development. The COMESA Competition Authority deals with mergers and acquisitions, as well as anti-competitive practices that have a cross-border effect, and that may not be adequately addressed by national competition law. In SADC, member states have agreed to cooperate in enforcement of competition law and to assist national competition authorities through training programmes. There cooperation initiatives are useful, but they are not robust enough to ensure effective regional competition governance. As regional integration progresses, there may well be anti-competitive practices with a cross-border effect that escape the governance coverage of national laws. Effective market governance in a regional integration context has to include regional competition policy, law and regional institutions.

Implementation of regional commitments

African states are keen to sign agreements, but often reluctant to implement agreed obligations. Concerns about sovereignty and policy space are often cited as reasons for non-compliance.

The linear model of regional integration, that most African RECs follow, requires sacrifice of policy space, along this integration path. The establishment of a customs union, for example, requires that member states implement a common external tariff. This means that member states adopt a common position on the import tariff towards external trading partners. Concerns about such sacrifice of policy space, directly contradicts the prevailing model of regional integration.

The Southern African Customs Union (SACU) Agreement (2002) provides for a SACU Tariff Board and Tribunal. The Tariff Board should manage the customs union's common external tariff (CET), trade remedies and safeguards for the 5 member states. The Tribunal should adjudicate disputes; an essential aspect of a rules-based regional integration arrangement. The SACU Agreement came into force in July 2004. More than a decade later these institutions do not exist. An interim arrangement, in terms of which South Africa's International Trade Administration Commission (ITAC) serves as SACU's Tariff Board, appears to have become permanent.

It is somewhat trite to say that without effective implementation, the expected outcomes of regional integration will not be achieved. The reality is that lack of implementation also points to serious governance deficits at member state level. These have to be addressed for the quality of regional governance to improve. The quality of the national building blocks will determine the quality of regional integration initiatives.

Conclusion

Regional integration is an important component of African development strategy. Industrialisation has become an important policy focus in Africa's regional integration discourse, recognizing that the capacity to produce tradeables competitively, is perhaps the real challenge. Effective implementation of the market integration agenda, as well as reform of restrictive RoO, is necessary for industrial development and diversification. Behind the border regulatory issues such as standards, services, investment and competition policy need to feature prominently and comprehensively in Africa's regional integration agenda to provide a foundation for competitiveness in the 21st century. Fundamentally developmental integration has to be rules-based, providing transparency, predictability and legal certainty for the agents of integration, who take decisions to invest, produce, trade and work in the African region. The CFTA provides a singular opportunity to design a developmental regional integration agenda that could also support Africa's competitive integration into the 21st century global economy.

FOOTNOTES

1 Baldwin, R. (2011). 21st Century Regionalism: Filling the gap between 21st century trade and 20th century trade rules. WTO Staff Working Paper ERSD-2011-08. Available at: https://www.wto.org/ENGLISH/res_e/reser_e/ersd201108_e.pdf

2 Details of the case are discussed by William Mwanza: http://www.tralac.org/publications/article/5551-polytol-paints-v-mauritius-evidence-of-the-existence-and-direct-effect-of-community-law-in-comesa.html

3 Implications of the new protocol are examined by Gerhard Erasmus: http://www.tralac.org/publications/article/6900-the-new-protocol-for-the-sadc-tribunal-jurisdictional-changes-and-implications-for-sadc-community-law.html

4 The Southern African Development Community (SADC) has several sector protocols, focusing on energy, transport and other services sectors (available at: www.sadc.int)

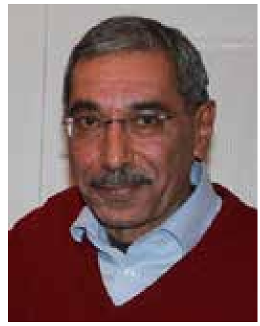
5 The African Development Bank's financial sector development policy and strategy is available at: http://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/Financial_Sector_Development_Policy_and_Strategy_2014_–_2019_–_Draft_Version.pdf

6 Sectoral approaches are also being adopted in other preferential trade negotiations such as the Transatlantic Trade and Investment Partnership (TTIP) between the United States and the European Union.

7 The linear model plots progress from a freetrade area to a customs union, common market, monetary union and subsequently, political union.

8 South Africa, Botswana, Lesotho, Namibia and Swaziland are members of SACU.

The Political Economy Growth and Reform in South Africa: Some Lessons from India's Licence Raj System[1]



FUAD CASSIM has been an academic teaching in the economics department at the University of Witwatersrand. He also worked for three years at the Public Investment Commission to help set up an alternative investment framework. In 2010, he joined the Ministry of Finance as a Special Advisor up to the present time. Prior to joining the Ministry of Finance in 2010, he was involved in various international and local policy initiatives. In 1992 he was a member of Nedcor Scenario Team to 1994 he participated in the Economic Trends Group and was the convenor of Economic Research Committee for the Macroeconomic Research Group at the University of the Witwatersrand. He also participated in many conferences on the South African economy. Fuad also participated in numerous extra parliamentary organisations in the 1980's which were aligned to the broad democratic movement in South Africa.

"An excessive focus on the role of vested interests can easily divert us from the critical contribution that policy analysis and political entrepreneurship can make. The possibilities of economic change are limited not just by the realities of political power, but also by the poverty of our ideas."- Dani Rodrik.[2]

Introduction

This paper seeks to draw out some policy implications for South Africa by looking at the political economy of growth and reform with respect to India. It will dispense with detail and get to the broad policy issues. The key question that we confront is whether we can increase the growth rate and what the impediments are that prevent us from achieving a higher rate of growth.

The rationale for choosing India – even though Brazil may be a more appropriate country in terms of common characteristics – is that the Indian experience is telling in what it suggests about the relationship between government and the private sector. More so because the current ambivalence between the private sector, trade unions and the government in South Africa cannot continue to persist. Despite the emergence of the National Development Plan (NDP), the different forces in South Africa still need to find a way to work towards a common vision.

The reason for touching briefly on mining, skilled labour and immigration, small business and black economic empowerment, and not on some of the other major challenges like electricity, unemployment, transport, is that we should not lose sight of the smaller areas of reform which potentially can yield large dividends. The other reason being that microeconomic factors are at times even more significant in igniting growth and prosperity. Marginal changes to the regulatory environment can trigger an investment response. This can change the nature of the conversation as well as the narrative for growth and structural change in the economy.

The Challenge of Inclusive Growth

No matter how intensive the debate one cannot hide the urgent fact that we need not only growth, but inclusive growth, in South Africa. This is particularly so, given South Africa's persistently high level of inequality and unemployment.

Ricardo Haussmann succinctly states that "a strategy for inclusive growth must empower people by including them in the networks that make them productive. Inclusiveness should not be seen as a restriction on growth to make it morally palatable. Viewed properly, inclusiveness is actually a strategy that enhances growth."[3]

It is unlikely that a single grand strategy – whether it is improving access to finance, regulating capital flows or deregulating the labour market – can unlock the path to rapid, inclusive growth.

We should do everything possible to achieve a higher growth rate. Our potential rate of growth – that is the maximum that can be attained given favourable internal and external conditions – is determined not only by improving our productivity and efficiency of investments, but also by improving governance in the overall political economy. Whether it can be achieved depends on domestic conditions as well as the global environment. However, potential growth is only part of the story. To achieve a higher and sustainable growth rate, South Africa will have to pursue reforms and eliminate distortions and imbalances in the economy. The budget for the 2015 fiscal year and the measures announced attests to this.

This requires government not only to be proactive but to be innovative as well. If South Africa is to succeed it will have to become more competitive, strengthen its institutions, and integrate its micro and macro-economic strategies in a coherent and coordinated manner.

The failure to grow remains a key challenge. It is unlikely that a single grand strategy – whether it is improving access to finance, regulating capital flows or deregulating the labour market – can unlock the path to rapid, inclusive growth. This challenge highlights the need for government to become ever more agile and responsive. In so doing, it will move on many fronts simultaneously, engaging with the real economy, and learning about the problems confronting civil society, as well as responding smartly and creatively. Above all it will have to rebuild trust to foster the conditions required for structural change and reform.

Although our economy is subject to movements in the global business cycle, ultimately we have to improve the structure of the economy. Structural reform in the South African economy is essential to increase productivity. But this takes time. Hence, it entails reforms in the product and labour markets. The product market requires that we reduce the barriers to entry by increasing the scope for new entrants and to making the economy more competitive and less concentrated. The labour market needs to become more efficient and labour absorbing for small and medium enterprises. More fundamentally, the economy needs to make a structural shift towards an investment led growth path as opposed to its traditional reliance on consumption as a driver of economic activity. As stated in the Budget Review 2015 "restoring confidence in the future growth of the economy is the key to unlocking the long-term investment commitment of private funds."[4] If we do not generate robust inclusive growth by tapping into our indigenous sources in quick time, we will be left worse off both politically and economically. This is a lesson drawn from what is unfolding in the Eurozone at present. While global growth is a major factor in slowing down domestic growth it is not the sole factor. South Africa needs to become more ambitious and raise the bar towards a higher rate of growth. So a fundamental question becomes, how fast can we expect to grow despite the headwinds that confront the global economy? How has India done it? What lessons, if any, can we draw from the Indian case?

The Indian Economy and Economic Growth

Various economists have attempted to explain India's break from its low or, what has been called, the "Hindu" rate of growth. In other words, India was known to grow at a maximum of 2-3% and not higher for a long period of time. This prevailed from the time of independence in the late 1940's until 1980. Some stress the role of "pro-business" reforms that began in the early 1980's (Rodrik and Subramanian, 2005)[5], while others have noted the importance of the systemic reforms in the 1990s and 2000s in accelerating the growth rate (Panagariya, 2008; Srinivasan and Tendulkar, 2003)[6]. This debate, though not settled, is nevertheless illuminating in a number of respects, mainly that the early reforms in the 80's did play a significant role in igniting growth.

The standard explanation for India's recent growth spurt has been ascribed to economic reforms initiated by Manmohan Singh in 1991. However, the evidence shows that this is not the case. Economic growth began to double in the mid 1980's. Dani Rodrik and Arvind Subramanian[7] (currently, Advisor to the Indian government) have argued that the acceleration in the rate of growth was primarily due to a change in the attitude of the national government towards the private sector. It is now conventional wisdom that India's growth acceleration predates the 1991 reforms.

The political logic was to win the support from the business sector as opposed to alienating it. The business sector responded positively, confidence improved and investment by the business sector increased rapidly.

Rodrik and Subramanian have attempted to explain the challenge of igniting growth and the story of how India seems to have overcome it. Their explanation comprises four elements.

- There was an attitudinal change on the part of the government in the 1980s, signalling a shift in favour of the private sector, with this shift validated in a very haphazard and gradual manner through actual policy changes.
- This shift and the limited policy changes were pro-business rather than pro-competition, aimed primarily at benefiting incumbents in the formal industrial and commercial sectors.
- These small shifts elicited a large productivity response because India was far away from its production possibility frontier.
- Manufacturing, which was built up through previous efforts, played a key role in determining the responses to the shifts.

The policy changes in the 1980's were essentially confined to internal liberalisation related to industrial licensing. The political logic was to win the support from the business sector as opposed to alienating it. The business sector responded positively, confidence improved and investment by the business sector increased rapidly.

What India's growth experience suggests is that it is possible to unlock growth, and that the route to achieving this is not necessarily the Washington Consensus route. What was the key difference? In India the reforms were in favour of existing business. This approach avoided the creation of losers. It may not be the most efficient, but turned out to have had a positive impact. This was also different from the Chinese approach which opened the economy to new entrants and activities.

The case of India provides an interesting case for understanding what inhibits the growth process. India's growth accelerated in the early 1980's. The change in attitude by the Indian government was key. Quite simply, it entailed eliminating the License Raj System or making small adjustments such as reducing some business taxes and easing access to imported inputs. India doubled its growth rate from 2% to 4% during the 1980's. Yet India is still plagued with bureaucratic inefficiency and a poor infrastructure. Later, in 1991, India liberalised the economy much further but the initial spurt to growth took place in the 1980's. The point is that when a country is performing below its potential, it does not require much to unlock inefficiency to boost the growth rate. Small changes can turn into big outcomes.

The point is that when a country is performing below its potential, it does not require much to unlock inefficiency to boost the growth rate.

What this kind of reform indicates is that governments do not need to do an enormous amount to unlock the growth potential but simply clean up the regulatory impediment to generate investment. Rodrik and Subramanian sum up their argument in suggesting that the "evidence points to an unleashing of the organised and incumbent private sector sometime in the early 1980s. While it is impossible to pinpoint exactly the source for this, there is circumstantial evidence that the trigger was a shift in the national government's attitude towards the private sector. This evidence also indicates that the beneficiary of this attitudinal shift was the formal sector built up under the earlier policy regime. Hence, to some extent, the learning generated under the earlier policy regime and the modern manufacturing base created thereby provided a permissive environment for eventual take-off once the policy stance softened vis-à-vis the private sector. So, unlike what one may have otherwise expected (from accounts of how costly ISI was), growth occurred where the earlier investments had been made. This is in contrast to the experience of the former socialist economies where post-transition growth was greatest, and where the drag exerted by the previous state sector was smallest."[8]

The South African Economy

South Africa in the post-apartheid phase has witnessed a material change for the better. Welfare gains are tangible in access to social services, housing and infrastructure services. However, it is of concern whether this can be sustained in the midst of low growth persisting as in the recent past. Moreover, since 1994 the economy has become a far more open economy compared to its past, which introduces new constraints but considerable opportunities as well. Compared to other emerging markets, South Africa's growth looks weak and is faced with considerable competitive pressures and constraints. The recent global financial crisis did not spare the economy and South Africa lost about 1 million jobs. The fact that electricity has become the immediate binding constraint simply adds to our woes.

The economy has gone through a whole series of reforms since 1994. Though the economy peaked in mid-2000, at present growth is low and well below potential. Yet, we have the NDP which attempts to embrace the broad population in the country. The question that arises is: what is the problem? Is it an implementation problem or does more need to be done? Is there something wrong with the development strategy in place? Alternatively, what is South Africa's License Raj?

There are numerous responses to this but here we focus selectively on a few factors with the hope of advancing a discussion on the possibility of generating a higher rate of growth.

The South African economy grew at 3.2 percent a year on average from 1994 to 2012. Potential growth is currently thought to be around 3.5 percent, though it was estimated at around 4.5 percent during the four-year period from 2004-2007 when growth averaged around 5.5 percent. Economic growth however, has mainly been driven by domestic demand and financed through a persistent current account deficit. The current account balance was close to zero around 2003 but has subsequently increased, and regularly is at around 6 percent of GDP.

> *"public and private interests are not perfectly aligned today, they are not perfectly opposed. Relatively modest shifts at the margin could them bring them back in sync."*

Let us now look at some areas where growth enhancing reforms could take place and which will signal a change in attitude and enable a more dynamic relationship with the private sector and the trade unions. This will require more than a decision from the market or legislation. It will have to involve labour, government and business. Michael Spence suggests while "public and private interests are not perfectly aligned today, they are not perfectly opposed. Relatively modest shifts at the margin could them bring them back in sync."

In economic discussions, the issues that feature predominantly are fiscal policy, interest rates, money supply, etc. While these policy instruments are obviously important, they are not the primary engines that ignite growth and drive innovation and jobs. This comes through new companies and new innovations that create new jobs. More often than not our discourse is dominated by big business, big government and big unions. Though these are dominant forces in most economies, including our own, they do not constitute the sum total of all economic activity.

Subtle changes we re-iterate in economic policy can have significant effects on the nature of the growth process of a developing economy. This area deserves significantly more attention in the policy discussions on economic policy.

Regulatory Uncertainty – The Mining Sector

The mining sector has historically been the bedrock of the South African economy. Even though its aggregate contribution to GDP has declined significantly it is still the largest contributor to foreign exchange revenue. Any negative developments in the mining sector are rapidly transmitted to other sectors. In this sense it can have rapid external effects. This was the case with the outbreak of strikes in Marikana. The impact was felt through the entire economy and not only in the mining sector.

South Africa's mining sector has been plagued with regulatory uncertainty and acute labour problems. The failure to take advantage of the commodities boom and the increasing emphasis on BEE and ownership has undermined the positive role that mining can play in our economic development. Short term redistribution has undermined long-term growth and investment in mining.

Fixing this problem may not result in short term gains, since mining investment is a long-term activity. However, the signal it will send can have demonstrable effects not only for mining but other sectors of the economy as well.

Immigration and Skilled Labour

It is evident that the South African economy is skills constrained. This is in line with global trends as economies are becoming more knowledge intensive and production processes are changing at the same time. South Africa is not isolated from these trends, and we ought to reap the advantages that globalisation does offer. Skilled labour has become more mobile and can be attracted to new growth opportunities.

New regulations are becoming restrictive for immigrants who want to open a business in South Africa. Whereas previously foreigners had to prove that they would invest at least R2.5 million in the country, now they have to show that at least 60 percent of the workforce will be South African.

The unintended result of immigration policy has been to choke the flow of skilled immigration as opposed to easing the skills constraint on the economy.

The problem we face in this instance is that we have made it more difficult for skilled labour to enter our borders and gain easy access to prospective job opportunities. This again does not require major system-wide reforms in education or the labour market. The solution is simply to ease the administrative difficulty so that skilled labour shortages do not become an impediment to growth.

To produce these skills domestically is a long term project but to tap into the existing global pool of skills is a much more plausable short term opportunity. The high level of global unemployment in developed economies makes this an attractive proposition.

Ricardo Haussmann[9] made an interesting observation on the skills issue on a recent visit. The Harvard team who came to advise the South African government were not all born in the US. He argued that if the US had South Africa's immigration policy, this team would not exist and probably Harvard as an organisation would not exist. That is why migration is so important to skills acquisition and therefore to growth and job creation. The unintended result of immigration policy has been to choke the flow of skilled immigration as opposed to easing the skills constraint on the economy.

Small Business

An independent private sector development and research company found that the time taken to start a new business is much longer than previous research has suggested. The Index discovered that it took on average 60 to 90 days to open a new business in South Africa compared to the World Bank's Doing Business Survey of 2013 which stated that it took 19 days to start a new business in this country. According to Small Business Project's (SBPs) Professor Neil Rankin, the South African Small, Medium and Micro-sized Enterprises ("SMME") sector is generally slowing down. Business owners identified that some of the top barriers to growth were lack of skills (15 %), red tape (12 %), lack of finance (10 %) and the cost of labour (10 %). The Index found that on average SMMEs spent an average of 75 hours a month dealing with red tape.

The most competitive nations are those that have the highest level of entrepreneurial activity. Small and medium size businesses tend to be the greatest creators of jobs and collectively, the greatest creators of wealth in emerging economies. Aspiring entrepreneurs in South Africa face huge challenges; financial, institutional, infrastructural and cultural challenges. Entrepreneurship is not yet recognised for the impact on growth, and the possibilities it can offer the South African economy, or for the impact it can have on unemployment and other social tensions in the country.

In South Africa, as in other emerging economies, these potentially transformative entrepreneurial champions must be supported and ignited. In this context we must distinguish between productive and unproductive entrepreneurs. Productive entrepreneurs create social benefits in addition to their private benefits. Unproductive entrepreneurs, in contrast, engage in rent-seeking behaviour that attempts to reduce another person's share rather than increasing the size of the cake. This sort of behaviour is highly prevalent in our context (i.e. the tenderpreneurs) who engage in corrupt practices and generate unproductive opportunities.

Black Economic Empowerment (BEE)

The key idea underlying BEE was to attain a significant shift in economic power to the previously disadvantaged and marginalised. This is a project that will not be achieved through the equilibrating tendency of the market mechanism but requires the state to play a role. However, in an attempt to achieve the objective of redistribution, we should guard against the tendency to use the regulatory power as the only route to solving economic problems. BEE is indeed necessary, particularly in a society that is distinguished globally for its high level of inequality.

A change in attitude can come about through lifting the regulatory burden, or License Raj, and broadening economic activity whereby it becomes more inclusive and participatory.

We need to identify what factors impede the growth of entrepreneurship and investment in South Africa. It is often argued that BEE is a problem since it militates against more risk based activities and therefore does not incentivise investment in innovation and growth. Rent seeking activity becomes the preferred option as opposed to activities that are growth enhancing.

Entrepreneurship or "entrepreneurial society", a term that is often used by the NDP, is an important objective. It can give rise to new firms and employment generating activities. The important challenge, then, is ensuring the growth of black entrepreneurs in South Africa.

Conclusion

The aim of this article is to suggest some lessons can be drawn from the Indian experience despite the very different context. The primary reason for choosing India as a comparative experience is because of the distrust that existed between the private sector and government. A similar situation prevails in South Africa which will require adjustments on both sides. A change in attitude can come about through lifting the regulatory burden, or License Raj, and broadening economic activity whereby it becomes more inclusive and participatory. This can change the conversation from pessimism to one of hope and inclusion. The private sector will equally have to demonstrate its ability to invest in a way that is less about the short term but more towards the long term.

The National Development Plan states, "leadership, unity and cohesion are difficult in our still-divided society. Yet these are the very things that help to anchor successful nations and development strategies. Leadership is required to win broad agreement for the plan, to implement it, and to make sacrifices for a better future. A capable, efficient, and fair state is needed to support it, and partnerships, based on mutual trust are vital. Unless we work together, sacrificing short term gain for long-term prosperity, no single part of South African society can achieve its objectives"[10]

The South African economy holds great promise which can be realised if we recognise the flaws and attempt to correct them, and find a consensual way forward with a shared sense of responsibility. We most certainly cannot afford to succumb to pessimism. As Paul Samuelson, puts it, – "every good cause is worth some inefficiency" - equity and social cohesion are among them. While there is a demand for jobs, a hunger for education, and a desperate need for health, growth enhancing reforms cannot be paralysed. The challenges facing us are immense but so are the policy choices confronting our economy. We have to ensure that the national interest and inclusive growth trumps other impediments, including vested interests.

Though we may not have a perfect formula for igniting growth, we will have to be persistent, determined, pragmatic, and experimental, as in other emerging economies where these issues are being dealt with on a regular basis. We need to draw on some experiences which can strengthen our economy and make it more resilient in the face of adverse pressures emanating from the global economy.

FOOTNOTES

1 The views expressed in this paper are those of the author writing in his personal capacity.
2 Dani Rodrik. - The Tyranny of Political Economy
3 R.Hausmann "The Economics of Inclusion" – Project Syndicate
4 The Budget Review 2015, p9.
5 D. Rodrik and A. Subramanian From "Hindu Growth" TO PRODUCTIVITY SURGE: The mystery of the Indian Growth Transition, Working Paper 10376 http://www.nber.org/papers/w10376
6 Panagariya, Arvind (2008), India: The Emerging Giant, Oxford University Press
7 Rodrik, D and Subramanian-
8 Ricardo Hausmann from Harvard University who chaired the International Panel on the Accelerated and Shared Growth Initiative for South Africa (ASGISA), shared this comment on a recent visit as well at a seminar presented to the CDE.
9 National Development Plan 2030, P.6.

Tribute to Professor Harry Zarenda

Shalom and Good Morning

Professors Jannie Russouw and Imraan Valodia
Family and friends of Harry

Today is a sad day for me, since I have lost a brother. That is what Harry meant to me.

I knew Harry for 34 years, longer than I know my wife. Nineteen of these years we spent working alongside one another in the Department of Economics at Wits University.

Our introduction came through Martin Fransman at Queen Mary College, University of London, in 1979, where I was doing my Master's degree in Economics. Martin suggested that I write to Harry about a job at Wits.

I started teaching at Wits in 1980 and my relationship with Harry grew and intensified in a natural way.

Harry was a Jew
I am a Muslim
Harry was a White person
I was classified as a non-white person
I called him Zee and he called me Cas

We travelled, ate and shared many Lachaims. Our lives became intertwined – not tainted by race, religion or ideology. We spontaneously put barriers aside and became intimate friends.

There are many facets and deep values to his life. He was an economist who chose to specialise and confine himself to development economics. This speaks volumes about his commitment and passion for putting people first. He did not view the world only through numbers and the cold calculus that economists use to frame the world.

Harry threw his lot in with the Macroeconomic Research Group (MERG) project in the early 90's. That says a lot about his commitment to a better alternative.

Harry was a passionate consumer of the arts, cinema, literature and played a damn good game of scrabble, outdoing many younger students.

Above all, Harry was a profound humanist in nature. He had rare qualities – foreign from today's consumerist and material culture.

He gave of himself to students, colleagues and friends. He was a true mensch.

More recently, when he spoke to me, he voiced some deep concerns about government. I listened patiently to him and took him seriously. Harry, expressed what decent and well meaning people expect from a government.

Harry, I will miss you. You have left a void in my heart. Now I wonder, where will I find another Zee. I regret not seeing him often enough. Zee, you will be missed but never forgotten.

May you rest in peace, my brother.

Fuad Cassim

BOOK REVIEW

ANTHONY EGAN: A Catholic priest and HSF Research Fellow, Anthony Egan SJ is based at the Jesuit Institute of South Africa in Johannesburg. By training he is a historian and ethicist, and he has studied at the Universities of Cape Town (MA in History), Witwatersrand (PhD in Politics), and at London (Philosophy & Theology) and at Weston Jesuit School of Theology, Cambridge Massachusetts (STL in Moral Theology). His work as a Jesuit has included pastoral ministry as a student chaplain, spiritual direction, journalism and academia. He teaches medical ethics part-time at the University of the Witwatersrand Faculty of Health Sciences and participates in the Fordham University (NY) exchange programme at the University of Pretoria. The author of three short books, over ten book chapters, numerous academic and popular articles and over 1000 book reviews, his current research interests include medical ethics, Vatican II and church reform, and the history of white resistance politics in 20th Century South Africa.

Showdown at The Red Lion: The Life and Times of Jack Mcloughlin, 1859-1910 by Charles van Onselen

Near the beginning of Charles van Onselen's latest history – a continuation of his research into crime on the 19th Century Witwatersrand, that started in 1982 and most recently included his biography of Joseph Silver and the history of Masked Raiders – he observes:

> The ghosts of parental culture and socialisation chase after each successive generation of humanity. Their ability to induce courage or fear, to inspire or defeat, may wax and wane with the time and place, but traces – sometimes the faintest of hints – remain; they are always there, they help make us who we are. Grandfathers shape fathers just as surely as fathers shape sons as the cycle endlessly repeats itself. Like the genetic markers of diet and disease, however, the imprimatur of male influence needs not always play itself out directly or proportionately among immediate successors. Habits, traits and values lie dormant for a generation or two and then, long forgotten, re-manifest themselves where and when they are least expected. But it is also true that sometimes the heavy hand of the phantom grandfather or father can readily be detected on the shoulder of the most recent of the offspring.

This comment with its strong suggestion of biological determinism is no doubt deeply controversial to many, but the passage in the chapter describing the ancestry of his subject is, I think, key to understanding van Onselen's reading of McLoughlin. Whether his observation is correct will no doubt generate debate – about this book as much as the validity of such thinking in writing history and biography.

As with his work on Mathebula, Silver and the 'Irish Brigaders' (or perhaps Brigands, but hardly brigadiers in the classical military sense!), van Onselen turns his eye to an obscure figure, a footnote in Transvaal and British Imperial history. The story of 'One-Armed Jack' McLoughlin, so named because he lost his lower right arm in a botched jailbreak, is an exercise in close reading of contemporary newspapers, Manchester birth records and census registers, and – I cannot resist saying above all – trial records. Indeed McLoughlin is such an obscure figure that the only portrait we have of him is a newspaper sketch from his trial for murder that led to execution in Pretoria in 1910.

Yet despite this, van Onselen constructs a coherent and rich account of McLoughlin and his contexts: from his ancestral background in British-controlled Ireland, through the Irish slums of Manchester where he was born, to India, Singapore, Australia, New Zealand and, above all, South Africa in the midst of the mineral revolution, Boer War and post-war national unification. Once again, van Onselen illustrates how Empire created the globalisation of the British working class, the forebears of many of us citizens of Her Majesty's former colonies.

Where before the emphasis was on the globalisation of crime (Silver) or the ambiguities of social banditry (the Irish Brigade) the focus on McLoughlin underlines cultural patterns of masculinity and honour. Patterns associated with the global British working-class diaspora – hard drinking, bare-knuckle boxing (both as sport and a form of duelling), rebellious attitudes to authority (taken to its logical conclusion in banditry), and above all loyalty to one's male comrades – are shown to underpin the culture of the Empire. Simultaneously, van Onselen seems to suggest that they are rooted in family, particularly in fathers, and in a context of deprivation and domination.

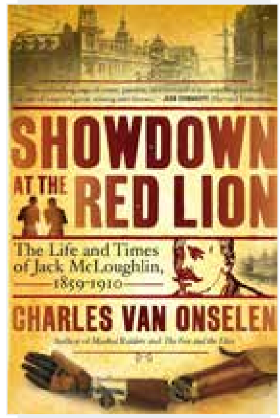
The move from Ireland to England came out of deprivation, most immediately the 1840s decade of famine. As the narrative illustrates, this move did not lead to improved conditions but to a new kind of poverty in the slums of Manchester. Van Onselen's pithy observation in this regard, "Progress barely hobbled along while death pranced about openly", is a brilliant summation of the situation, a one-liner that renders wading through Engels almost redundant, and might well be an apt inscription on many a 19th Century Irish Mancunian's tombstone (were such luxuries a possibility).

Similarly the Manchester-born Jack McLoughlin decision to move to the Empire (via the Royal Navy) can be seen as an extension of this ancestral longing for a better life. Having grown up in a culture of poverty, alcohol, petty crime, and a communal identity based on quasi-political gang culture which had led to prison, McLoughlin wanted out. His desertion from the Navy in Singapore and subsequent moves to Australia and Southern Africa did not 'cure' him of involvement in crime. However, if anything it made him a professional, albeit one with an inbuilt sense of masculinist loyalty. Ironically, in both countries – and later New Zealand – his reputation as a bandit, robber, safe-cracker and all-round 'hard man' seems to have had limited personal advantage.

As I mentioned earlier, he lost much of his right arm in a bungled escape from prison in the Transvaal, having been arrested for attempting to rob a Catholic priest. This in itself illustrates a paradox: a Catholic himself by baptism, McLoughlin had an ambivalent relationship to the Church in general, and priests in particular. Significantly, McLoughlin had a deep respect, even fear, for nuns.

His sense of loyalty and honour led to the 'showdown' of the title that resulted in his killing of a disloyal and hence dishonourable member of his Johannesburg set, and a bystander, that forced him to flee South Africa for India, New Zealand and Australia. The Anglo-Boer War disrupted for a while the global arm of Imperial law, but his continued involvement in criminal activities – and regular imprisonments – led to his final extradition, trial and execution.

This brief review can barely do justice to this careful, meticulously researched and genuinely entertaining book, which is both biography and social history. As one has come to expect of Professor van Onselen it is an excellently researched piece of work, a textbook case study to be used by trainee historians in how to write a work both scholarly and genuinely engaging. Van Onselen brilliantly musters



SHOWDOWN AT THE RED LION: THE LIFE AND TIMES OF JACK MCLOUGHLIN, 1859-1910S by Charles van Onselen
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secondary sources and his own speculations with limited primary documents to create a narrative that is a convincing account of his subject and his context. Like the great detective novelist Agatha Christie, van Onselen does not 'cheat' in making his claims, rather he clearly distinguishes between matters of fact and speculation, backing up the latter with evidence that he suggests can credibly fill in the gaps in his sources.

As a social historian, too, van Onselen skilfully sets up McLoughlin's context, drawing on secondary sources to make it a live, colourful and credible backdrop to the biography.

There are, perhaps inevitably, some gaps. Van Onselen's reading of the 19th Century Irish working-class Catholic subculture to which McLoughlin had an ambivalent relationship is the most obvious. The way in which the Church both critiqued and paradoxically contributed to the Irish 'hard man' culture is less comprehensively examined (as I've suggested in at least one respect in an earlier footnote). Similarly his understanding of Catholic religious orders in the Transvaal is thin – but, in fairness, probably no less than Catholic understanding of them, then and now.

Perhaps the measure of this book is that such criticisms do not adversely affect the narrative's impact and value.

Perhaps the point most crucial to a critique of this book is his apparent 'biological determinism', raised at the beginning of this review. While personally willing to see the truth of such a suggestion in McLoughlin's case, I think such a claim – if indeed the author makes this claim, which he phrases in quite nuanced language – needs at least more careful examination. `It may be true in some cases, but in others it is less evident. If it has an element of truth, just as in historical theories rooted in concepts of race, class or gender, we need to see what factors may 'activate' it, and what factors negate or make it 'dormant'. As a hermeneutical factor, it can be misused like any theory with dangerous stereotyping effects – or, as I think it is used here, as a provocative compliment to a sophisticated interpretation of Marxist class theory.

Perhaps the measure of this book is that such criticisms do not adversely affect the narrative's impact and value. The precision of van Onselen's research, his critical, yet sympathetic engagement with his character, and the sheer force and quality of his writing, make this a valuable contribution to South African historiography and, simply put, a thoroughly enjoyable read.

I am reminded on reading this book of the comments of novelist, poet and member of the Swedish Royal Academy, Per Sigfrid Siwertz:

> As a stylist [he]…does not beat about the bush, but is a man of plain speaking. His fervour is realistic, his striking-power is tempered only by broad-mindedness and humour. He knows that a good story tells itself. He scorns unnecessary frills and his metaphors are rare but expressive.

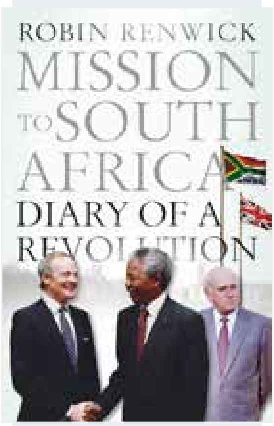
The subject: Winston Churchill.

The occasion: Siwertz's speech at the awarding of the 1953 Nobel Prize for Literature.

BOOK REVIEW

Mission to South Africa by Robin Renwick

JACK SPENCE:
J E Spence OBE was educated at the University of the Witwatersrand and the London School of Economics. He is a Visiting Professor in the Department of War Studies, King's College, London. He taught at the University of Leicester where he was Pro-Vice-Chancellor (1981-85); Director of Studies at the Royal Institute of International Affairs (1991-97); Academic Advisor to the Royal College of Defence Studies, London (1997-2008); currently Senior Visiting Fellow, Defence Academy of the United Kingdom.



MISSION TO SOUTH AFRICA by Robin Renwick
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South Africa and indeed Britain have been fortunate in the quality and general performance of those who have served the Foreign and Commonwealth Office as High Commissioners or Ambassadors to the Pretoria government in the post war period. Among those who excelled in what was, after all, a difficult but important posting were, inter-alia, Sir Ewan Fergusson, Sir Patrick Moberly (with whom I worked closely at Chatham House in his role as Chairman of the Chatham House Study Group on Southern Africa), the late Sir Tony Reeve and Lord Renwick. The book under review gives a fascinating and detailed account of the latter's role in helping to promote the transition from Apartheid to democracy.

Before examining his analysis of that extraordinary phase in South Africa's history, it might be helpful to set his particular conduct of diplomacy in the context of the changes that have occurred in theory and practice since the agitation for a 'new diplomacy' requiring 'open covenants openly arrived at' so famously argued by President Woodrow Wilson of the United States in the closing years of World War I. During that conflict, the 'secret diplomacy' of the pre-1914 era had been bitterly criticised by opponents of the war as a prime cause of that conflict, while diplomacy in general came under attack in the inter-war period by those in the United States, for example, who disparagingly referred to its exponents as 'cookie pushers in striped pants'.

More sophisticated critics doubted the role of orthodox diplomacy and ambassadors in particular in a globalising world with new alternative sources of commentary on world affairs via 'real time' reporting. The increase in summit diplomacy and face to face engagement by presidents and prime ministers was also cited as making the orthodox diplomat increasingly redundant. Finally, in this truncated account of diplomacy's vicissitudes one might point to the much-derided 'quiet diplomacy' of Thabo Mbeki in his handling of the Zimbabwean crisis, and the WikiLeaks revelation of confidential discussions between governments. All these developments appear to undermine the legitimacy of diplomacy as a force for good in world politics. To sum up then, in the words of Sir Simon Jenkins, a trenchant critic of diplomacy: 'today's true diplomats are comers and goers, tourists, foreign correspondents, exchange students, visiting artists and celebrities….culture and lifestyle are the diplomacy of the 21st century. Old fashioned ambassadorship was long ago demoted by the telephone, the jet and the email…'[1].

And yet diplomacy has survived to good effect. According to Hedley Bull, diplomacy is 'the conduct of relations between states and other entities with standing in world politics by official agents and by peaceful means'[2]. Underpinning this view of diplomatic practice are the twin notions of 'intelligence and tact'[3], both of which are central to the conduct of diplomacy at its best in the search for that 'overlapping interest' via negotiation between protagonists and without which satisfactory outcomes are impossible.[4]

Moreover, we must never forget the role that negotiation (not necessarily between professional diplomats) plays in making life possible and tolerable both within and between states. For example, the many agreements dealing with air traffic control across the globe and the work of functional organisations - such as the Universal Postal Union and the World Health Organisation - all continue to promote a degree of trust and efficient co-ordination both by states and individuals in their dealings with one another. This emphasis on rule-making and its general observance by virtue both of self interest and ethical concern entitles us to think of diplomacy as an institution helping - with others, such as international law - to bind the states of international society closer together and without which life would be in Hobbes' words, 'nasty, brutish and short'.

But, above all, the crucial necessity of 'tact and intelligence' which Renwick in his stay in South Africa demonstrated with skill, firm conviction and enormous patience with the conflicting messages he received from both the agents of civil society and the major actors in South African politics.

So much for diplomacy's traditional role in regulating state interaction - whether the 'high politics' of conflict prevention and resolution or the 'low politics' of day to day refinement of the nuts and bolts of functional co-operation in a host of regional and global organisations. Renwick's volume does much to restore one's faith in traditional diplomacy confounding critics who downgrade the role of ambassadors and see no virtue in old fashioned secret diplomacy the conduct of which, at its best, demands that the diplomat's negotiating skill is underpinned by certain key values – restraint, patience, courtesy, empathy and good faith. But, above all, the crucial necessity of 'tact and intelligence' which Renwick in his stay in South Africa demonstrated with skill, firm conviction and enormous patience with the conflicting messages he received from both the agents of civil society and the major actors in South African politics.

Of course, Renwick had the advantage that he knew South Africa well. Appointed head of the Rhodesia Department in the Foreign and Commonwealth Office in November 1978, he had played a vital role in the negotiations leading to the Lancaster House Agreement in December 1979 and to Zimbabwe's independence in April 1980.

Renwick's arrival as British Ambassador to South Africa in 1987 provided an opportunity to play a key role in assisting all the protagonists in the local political drama following Nelson Mandela's release from prison on 11 February 1990. What Renwick did with such skill and determination during his tenure was, in effect, to engage in a subtle combination of time consuming 'secret and quiet diplomacy' demonstrating that both features of the enterprise are essential in promoting the work of conflict-resolution in a divided society. To this end he spent much of his time meeting the 'main actors in this drama, P W Botha, F W de Klerk, Nelson Mandela, Desmond Tutu as well as many other less well known figures who had also played important parts in getting rid of a fundamentally abhorrent system sooner and with less bloodshed than most outsiders had dared to hope'[5]. As he himself explains his role: 'in this deeply divided society it was possible to try to act as a genuinely honest broker and to retain the confidence of the main participants ….the most that any embassy could do was to try to help act as a facilitator and then let South Africa get on with a process in which too much foreign involvement was positively undesirable'[6].

True, other diplomatic missions, notably those representing the United States and the European Union played a positive role. But what emerges from this particular account is that 'for a time the South African government, trying to change but still hard put to bring itself to do so, did feel that it needed one Western country it felt it could appeal to'[7]. After all, Anglo-South African relations have a long complex history; indeed one might argue that the two countries had for many decades enjoyed a 'special relationship' compounded of both conflict and co-operation. There was the added advantage that Renwick enjoyed the confidence of all the key players – Mandela, de Klerk, Buthelezi and a host of other major figures in South African politics: Helen Suzman, Pieter de Lange, head of the Broederbond, Johan Heyns, head of the Dutch Reform Church and Gerhard de Kock, Governor of the South African Reserve Bank. Nor can we ignore Renwick's role as 'Margaret Thatcher's appointment' giving him 'some leverage with the regime…[which]...could hardly afford the complete withdrawal of her support, although they had been doing precious little to deserve it'[8]. Thus, Renwick's diplomatic strategy combined both 'soft' and 'hard' power resulting in 'smart power' as modern diplomatic parlance would have it. Indeed, Britain's key role through the effective agency of Renwick's 'good offices' and Mrs Thatcher's determination to maintain the momentum of the negotiation process was fully acknowledged by Mandela as the 'principal supporter of the negotiating process'[9].

In effect, Renwick acted as a one man 'contact group' urging the key actors to keep talking to each other even when events conspired to threaten or cause a breakdown in negotiation.

Renwick's great achievement, well documented with due modesty in this book, was to recognise the importance of persuading, by rational argument, all the conflicting parties that they had an 'overlapping interest' in ultimately securing agreement based on compromise and consensus. In effect, Renwick acted as a one man 'contact group' urging the key actors to keep talking to each other even when events conspired to threaten or cause a breakdown in negotiation.

What was critical in this context was the dawning recognition on both sides that they were locked in a 'mutually hurting stalemate' to quote the American scholar, W I Zartman. In his seminal work on Mediation (an important soft power diplomatic device acknowledged in Chapter 6 of the United Nations Charter) he discusses the significance of the critical moment when conflicts are 'ripe for resolution' and this was certainly the case in the late 1980s following the end of the Cold War, the removal of any conceivable threat to South Africa from the Soviet Union, the independence of Namibia and Zimbabwe and the slow erosion of the local economy as a variety of sanctions began to bite in earnest.

Renwick was well placed to seize the moment as both the Nationalist Government and the African National Congress recognised that the stalemate could not be broken. Indeed, Alfred Nzo admitted in January 1990 that 'we do not have the capacity within our country to intensify the armed struggle in any meaningful way' (p.92). Thus an ANC 'seizure of power' was not possible as Mandela himself had acknowledged in a secret memorandum to P W Botha stressing that negotiations with the Pretoria government had to take place.

As in all successful negotiations that end decades of conflict, those responsible have to be imaginative risk takers, willing if necessary, to defy their own supporters for the sake of long term advantage. They must be able to cope with the stresses and strains of what is, after all, a delicate and arduous process of crises management as old enemies are induced into confronting and ultimately acknowledging each other with due respect across the conference table.

The old adage 'cometh the hour cometh the man' has a special resonance in South Africa's case given the competence and, more important, the generosity of spirit displayed by Mandela and de Klerk, two leaders who saved South Africa from a slow decline into a wasteland of failed hope and aspirations both at home and abroad.

Robin Renwick made a massive contribution to promoting decent and productive change in the Republic's fortunes. He demonstrated that diplomacy of a traditional kind still has value and without which South Africa's transition would have been far more difficult. Future historians will find his analysis of events during the tumultuous years of the South African transition a profound guide, full of insight about the process of change and the role that individuals like the author played in helping to break the stalemate.

FOOTNOTES
1 The Guardian, 18 January, 2008
2 Bull, p.156
3 Satow, p.1
4 Bull, p.164
5 p.1
6 pp.171/2
7 p.172
8 p.29
9 p.147

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Hedley Bull, The Anarchical Society – A Study of Order in World Politics, Palgrave Macmillan 1977.
Sir Ernest Satow, A Guide to Diplomatic Practice, Longmans, 1957

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