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**The ‘Developmental’ and ‘Welfare’  
State in South Africa:  
Lessons for the Southern African  
Region**

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# The ‘Developmental’ and ‘Welfare’ State in South Africa: Lessons for the Southern African Region

## Abstract

*Enthusiasm for the idea of a ‘developmental state’ emerged in South Africa in the early 1990s, re-surfaced in the mid-2000s, and re-emerged yet again after 2007. The idea appealed to the statist instincts of many ANC leaders, and got momentum because of the perceived importance of shifting the economy onto a more inclusive and faster growth path. After twenty years of ANC government, however, growth remained sluggish and non-inclusive. The standard explanations are insufficient: Neither politics within the ANC nor international agreements nor state incapacity prevented the state developing interventionist industrial policies in some sectors. We offer a fourth part of the story: The preferred mix of policies associated with the developmental state in practice was inappropriate for the South African context. By encouraging capital- and skill-intensification, public policies retarded growth and inclusivity, and reproduced rather than reduced poverty and inequality. The South African state has, however, redistributed through cash transfers very efficiently. Pro-poor outcomes are more likely if the state builds on the strengths of its welfare state and avoids heavy investments in capital- and skill-intensive industry that are favoured by the would-be developmental state.*

## Introduction

In 1994, the new African National Congress (ANC) government, with Nelson Mandela as president, inherited an economy characterised by very high inequality, with deep poverty – unmatched in other comparable middle-income economies – co-existing with conspicuous affluence. The ANC leadership repeatedly committed themselves to transforming the economic growth path through a mix of ‘reconstruction’ and ‘development’, redressing the racial and class discrimination of the apartheid era and making future growth inclusive of the poor. A ‘developmental state’ was integral to this vision. The ANC government also inherited a welfare state that had hitherto provided high quality public education and health care as well as cash transfers to white citizens. ANC

governments addressed the racial discrimination in service delivery through reallocating public resources to poorer, black citizens. But ANC leaders repeatedly distanced themselves from the idea of a ‘welfare state’, emphasising that they would ensure (inclusive) ‘development’ not ‘handouts’.

The ANC’s ambivalence about the welfare state coincided with rising enthusiasm over ‘social protection’ in the rest of the world, partly on the developmental grounds that cash transfers to the poor was or could be conducive to development, and partly on the grounds that poor citizens had a right to a share of national (and global) resources. A wide range of international organisations (including both the World Bank and the International Labour Organisation, ILO) and donor agencies (including the UK’s Department for International Development, DfID) embraced social protection as both a mechanism for reducing poverty quickly and a developmental or even ‘transformative’ tool, encouraging the economic, social and political conditions favouring inclusive development.

In South Africa, as across much of Southern Africa, the success of welfare-state-building in addressing poverty contrasts with the general lack of success of ‘developmental states’. States have proved more effective at redressing the inequalities generated in markets than they have at governing markets so as to reshape the economic growth path (with some exceptions). The result has been hybrid developmental-welfare states, with more capacity on the welfare side and aspirations on the developmental side.

This paper first considers the promise of post-apartheid development. It then considers the standard explanations for the ‘failure’ or, at best, partial success of the democratic developmental state: External constraints, politics within the ANC and state (in)capacity. It then turns to an alternative explanation: that the design of developmental state policies was inappropriate. The fourth part of the paper turns to the ‘welfare state’ which, despite ideological ambivalence with the ANC and government, delivered substantial benefits to the poor. Finally, the paper considers the relevance of the South African case to other countries in Southern Africa. Many of the issues raised in this paper are addressed more fully in *Policy, Politics and Poverty in South Africa* (Seekings and Natrass, 2015 forthcoming).

# 1. The Promise of Development in Democratic South Africa

In its 1994 *Reconstruction and Development Programme* (RDP), the ANC promised that a democratic state would act to steer the mixed economy down a new economic growth path. ‘The central goal for reconstruction and development is to create a strong, dynamic and balanced economy which will eliminate the poverty, low wages and extreme inequality in wages and wealth generated by the apartheid system, ... develop the human resource capacity of all South Africans so the economy achieves high skills and wages, ... and create productive employment opportunities at a living wage for all South Africans’ (ANC, 1994: 79). This would entail transforming the state itself. The apartheid state had become

“... secretive and militarized, and less and less accountable even to the constituency it claimed to represent. The legal and institutional framework we are inheriting is fragmented and inappropriate for reconstruction and development. It lacks capacity to deliver services, it is inefficient and out of touch with the needs of ordinary people. It lacks coordination and clear planning” (ANC, 1994: 119).

The ANC promised instead a state that was not only democratised but was also modernised and efficient:

“We must develop the capacity of government for strategic intervention in social and economic development. We must increase the capacity of the public sector to deliver improved and extended public services to all the people of South Africa” (ANC, 1994: 120).

The ANC proposed that the democratic state would shape development in three ways. First, it promised “an infrastructural programme that will provide access to modern and effective services like electricity, water, telecommunications, transport, health, education and training for all our people” (ANC, 1994: 6). This would not only meet basic needs denied by the apartheid state but would also lead to improved productivity and output. Secondly, the state would embark on a programme of land reform. This would also meet basic needs and reverse the injustices of apartheid, as well as serving as the “central and driving force of a programme of rural development” that would generate “large-scale employment’ and raise rural incomes” (ANC, 1994: 20). Thirdly, the government would intervene in a mixed economy through industrial, trade and other policies, with the promise of growth of 5 percent per annum and massive

job creation (the RDP even specified “300,000 to 500,000 non-agricultural jobs per annum ... within five years”) (ANC, 1994: 87).

The industrial policy agenda was developed through the union-linked Industrial Strategy Project (ISP) in the early 1990s. The ISP recommended that the poor performance of South Africa’s manufacturing industries be rectified through higher productivity and moving ‘up the value chain’ (Joffe *et al.*, 1995). The ISP conducted a series of sectoral studies of the clothing (Altman, 1994) and textiles (Maree, 1995) sectors, amongst others. In sectors like these, the ISP studies meshed with unions’ demands for higher wages, resulting in the use of labour market and industrial policies to raise productivity through higher (‘decent’) wages, skills development and the upgrading of industrial processes (which in practice mostly meant mechanisation).

In practice, the bold vision was implemented unevenly. Under the Mandela (1994-1999) and first Mbeki (1999-2004) governments, efforts were directed primarily towards building an integrated state out of the fragments of the late apartheid era, deracialising public policy (including labour market policies, social policies and municipal services) and then beginning the deracialisation of corporate ownership through BEE. This entailed a massive expansion of the state’s role in service provision, especially for the poor, with the state spending heavily on public education, health care, municipal services and cash transfers for the poor. Issues of production were generally neglected, however, perhaps in part because the strained relationship between Mbeki and white business leaders.

Calls for a developmental state intensified in the 2000s as it became clear that unemployment and poverty had worsened after 1994. In his 2005 State of the National address, the first after his re-election the previous year, Mbeki promised a developmental state that would invest heavily in public utilities (including electricity) in particular. This emphasis on a developmental state was repeated in other Mbeki speeches and was endorsed by the ANC at its National General Council in 2005, its national policy conference in mid-2007, and at its National Conference in Polokwane at the end of 2007. The 2006 Accelerated and Shared Growth Initiative South Africa (AsgisSA) envisaged the developmental state accelerating and reshaping growth so that unemployment and poverty would halve by 2014 (South Africa, 2006c). By 2007, the call for a developmental state had been taken up by the coalition behind Jacob Zuma’s successful insurgency against Mbeki, and the developmental state proposal was unsurprisingly central to the ANC’s election campaign in 2009. Following the election, now-president Zuma appointed a Minister of Economic Development (the former trade unionist, Ebrahim Patel) and a National Planning Commission (chaired by the former Minister of Finance, Trevor Manuel).

It soon became very clear just how ineffective had been South Africa's supposed developmental state. In an article published in 2010, Fine pointed to the telling failure of the state to ensure sufficient capacity in the generation of electricity, with the result that both private and corporate sectors experienced power cuts: "The simplest task of a developmental state – to keep the electricity on – has not been achieved" (Fine, 2010: 178). The state had also clearly failed to steer the economy down a more inclusive growth path. By 2012, there were almost twice as many unemployed South Africans than there had been in 1994. The unemployment rate was at least 5 percentage points higher than in 1994, and the employment rate was at least 5 percentage points lower. In global terms, South Africa was an outlier with respect to employment and unemployment (Nattrass and Seekings, 2014a).

In 2012, the National Planning Commission completed its National Development Plan (NDP) (South Africa, 2012). The NDP acknowledged a failure to remake fully South Africa into a country that provided *all* of its citizens with meaningful economic opportunities. The schooling system failed to equip young people with skills, too few people worked, and poverty (as well as inequality) persisted. The NDP acknowledged that state institutions performed unevenly and often poorly (South Africa, 2012: 54). What was needed was "an economy that is more inclusive, more dynamic and in which the fruits of growth are shared equitably" (South Africa, 2012: 38). "Progress over the next two decades means doing things differently" (South Africa, 2012: 26), with reformed public policies and institutions achieving "a change in the structure of the economy and the pace at which it grows" (South Africa, 2012: 39).

The recommendation of the NDP, as in almost every government strategic document since 1994, was that a 'capable and developmental state' would be key to doing things differently (South Africa, 2012: 26, 54). As we shall see below (in part 4), the NDP combined a realistic reassessment of some of the constraints on inclusive economic growth with continuing indecision and caution in its proposals for tackling these constraints. The point to be made now is a simpler one: After eighteen years in government, the ANC's major policy document suggested that the economy had not only grown too slowly but more importantly had followed the wrong growth path, such that the benefits of modest growth had not been shared adequately with the poor. As Fine recognised, the state had failed to perform even the most basic tasks of any developmental state: keeping the lights on. It had failed completely to generate significant job creation. The economy was littered with sectors in decline, in terms of employment if not of both output and employment.

## 2. The Failure of the Developmental State

The vision of a democratic state in South Africa entailed an active industrial strategy that would steer the economy down the desired economic growth path. The state failed to realise this vision. The predominant interpretations of this failure emphasise the external constraints of international agreements in a globalised world, the political character of the ANC, and the incapacity of the South African state. All three arguments are well-founded, but incomplete.

Kaplan (2007) explains how the changing global policy context made it impossible for South Africa to replicate all of the ‘development state’ industrial policies so successfully employed by the East Asian ‘tigers’. Korea and Taiwan were able to provide targeted support for key industries whilst avoiding the dangers of inefficiency by linking subsidies and related support to good export performance. South Africa implemented a similar industrial policy for the motor industry, making subsidies conditional on export performance. Such subsidies ceased to be legal, however, under the 2000 international Agreement on Subsidies and Countervailing Measures. South Africa’s motor industry policy was revised in order to avoid challenges through the World Trade Organisation. Subsidies henceforth could only be linked to production (not export performance), which raises the cost and blunts the efficacy of the intervention (Kaplan, 2007: 96-97).

Kaplan – who was integral to the Industrial Strategy Project and served as Chief Economist in the Department of Trade and Industry between 2000 and 2003 – also details the institutional obstacles to effective industrial policy in South Africa. Kaplan identifies two ‘key institutional requirements for an effective industrial policy’: ‘the professionalism and capacities of the government’ and an effective strategic collaboration between government and business. Both, Kaplan argues convincingly, were very limited in South Africa.

Effective industrial policy requires effective policy management and co-ordination, and clear communication with industry. Industrial policy in South Africa was never consolidated under a single state department, however, but was rather shared between the DTI, Public Enterprises, the Treasury and even Defence. Much of it remained ‘hidden’, including direct support and subsidies for armaments production, infrastructure and energy, and nuclear energy plants (notably the pebble bed modular reactor), as well as a proposed windfall tax on SASOL (which produces oil from coal) (Kaplan, 2007: 98-99). This lack of policy co-ordination resulted in industrial policy proceeding in a piece-meal way, and with no attention being paid to maximising the potential advantages of agglomeration or to facilitating planned up-stream and down-stream

development of industry. It also opened up the danger of particular projects being seen in isolation (as pet projects) rather than in an overall development planning context in which opportunity costs could be spelled out. This is particularly evident with regard to the pebble bed nuclear reactor for which over a billion rand was allocated by the Treasury in 2006 (Kaplan, 2007: 109). Stand-alone approaches to specific sectors were also more vulnerable to corruption and mismanagement, as the corrupt arms deal demonstrated (Feinstein, 2007; Holden and van Vuuren, 2011).

The quality of the bureaucracy also constrained implementation. The government's 'transformation' agenda meant that it appointed new, often inexperienced officials.

“Currently most of those responsible for government industrial policies are new recruits to their positions. They have a limited understanding of their sectors. So-called sector specialists have very limited, if any, direct work experience in the sector to which they have been appointed. Indeed, very few personnel have experience of working anywhere in the private sector. In South Africa, there is no ‘revolving door’ as between business and government that, for example, has characterised the Japanese MITI” (Kaplan, 2007: 101).

Subsequent to Kaplan's article, it began to seem that there was a door between government and business, with senior government officials as well as ministers taking up well-paid positions in business. Some officials from regulatory agencies took up posts in the businesses they had themselves licensed. But this door did not revolve: There was little evidence of people with experience in the private sector taking up positions in the state. The bureaucracy enjoyed considerable autonomy from business, but was not embedded.

State incapacity in departments dealing with economic management was in part due to the generic weaknesses of the post-apartheid bureaucracy. These have been analysed most thoroughly with respect to public health and education. Von Holdt and Murphy (2007) documented management failures in public hospitals in Gauteng in the early 2000s. In their analysis, these failures were at least in part due to overload, with public hospitals not having the resources required to perform adequately. Management practices, however, exacerbated the problems. Decision-making was overly-centralised, with hospital managers lacking operational discretion. Managers were preoccupied with the administration of rules and regulations and neglected actually managing either people or operations. Insofar as managers solve problems, they focus on immediate crises. Von Holdt (2010) subsequently identified five factors that underlay mismanagement in sectors such as health. First, affirmative action policies

combined with the shortage of skills contributed to very high turnover in management, with as many as one in three public sector managers moving jobs each year (Naidoo, 2008). A culture of ‘moving onwards and upwards’ prevailed. Not only did managers focus on their future opportunities rather than doing their job, but their actual performance in their current job rarely affected their future prospects. Secondly, there was a widespread ambivalence towards skill, especially given the racialised distribution of ‘skill’ under apartheid. Race also informed the importance of ‘face’: Deference was often more important than competence. Fourthly, there was a general breakdown of discipline. Union shop stewards exercised a veto over many management decisions, whilst professionals used public facilities for private practice. Finally, budgetary rituals further detracted from actual service delivery. Similar problems characterised the administration of the public school system (see, for example, Fleisch, 2002).

Problems of capacity were most pronounced at the level of the local state, which was responsible for the delivery of basic services – including water, electricity and sewerage – and the improvement of housing and related infrastructure. Overall, there was marked progress in service delivery, entailing considerable redistribution from rich to poor (Seekings and Nattrass, 2015: Chapter 7). Despite a dramatic increase in transfers from central to local government in the 2000s, however, many municipalities failed to ensure adequate quality, squandered resources through incompetence or corruption, and were completely unable to play the developmental roles imagined in national policy. Widespread problems included “stalemates between councils and officials; rivalries between mayors and municipal managers; tensions between senior and junior staff; a loss of moral and an ethic of service delivery amongst staff members; convoluted procedures and red tape; and the appointment of staff with inadequate formal qualifications, expertise and experience” (Atkinson, 2007: 61). Rapid transformation had undermined municipal capacity: “Valuable skills had been lost, institutional memory had dissipated, senior posts had become sinecures for the party faithful and junior posts had been filled by inadequately trained people” (2007: 61). In the face of rising wages and salaries, ‘savings’ were often effected by freezing posts. ‘The combination of inexperienced, poorly qualified staff, with similarly inexperienced councillors, in a context of substantial financial flows in and out of municipalities, creates fertile ground for irregularities, malpractice and ineffective expenditure’, Atkinson concluded (2007: 63; see also Makgetla, 2007).

The post-apartheid state certainly had uneven capacity, and lacked meaningful capacity in many areas. But the state did have evident capacity to do many things. It raised taxes and paid pensions and grants very efficiently. It employed teachers and nurses, even if it was unable to manage them well. It also

disciplined companies in a range of ways, including through BEE legislation. The state also sought to regulate the labour market. Although compliance was poor in ‘unorganised’ sectors (i.e. sectors without trade unions, such as domestic work), ‘organised’ sectors (including almost all industry) was effectively and tightly regulated. As we shall see below, the evidence suggests that the state did not *lack* the capacity to implement industrial policy. It just did not design and implement policy very sensibly.

A third explanation for the apparent failure of the developmental state in South Africa focuses on politics within the governing ANC. In the mid-2000s, the coalition supporting Jacob Zuma’s challenge to the incumbent Thabo Mbeki began to point to the so-called ‘1996 class project’. The Congress of South African Trade Unions (COSATU) and South African Communist Party (SACP) denounced the attempt by ANC leaders to steer the ‘National Democratic Revolution’ away from a ‘radical’ orientation. ‘The current ANC NEC is simply not representative of the ANC constituency’, said COSATU general-secretary Zwelinzima Vavi in 2007; ‘It is made up of the middle- and upper-classes and is dominated by people with business interests’ (quoted in *Mail and Guardian*, 9 March 2007). The ANC was dominated by a new black bourgeoisie that sought to use control of the state to expand their personal stakes in the capitalist economy, but was ultimately dependent on that capitalist economy.

As critics of the ‘1996 class project’ themselves argued, however, the vision of a ‘developmental state’ was part of a ‘centre-left’ project. In this view, the ‘parasitic and compradorist’ black bourgeoisie sought to use the state as a means of accumulation. It is not clear why this class or faction would have been opposed to interventions that would have accelerated the growth rate or made the growth path more inclusive, as long as the economy remained a mixed one, with a substantial capitalist sector. Moreover, in 2007 the critics of the ‘1996 class project’ succeeded in securing the presidency of the ANC for their candidate, Zuma, and eighteen months later he became president. His new Minister of Trade and Industry, SACP member Rob Davies, introduced a new Industrial Policy Action Programme (IPAP), described by the SACP as ‘a critical component of changing our present semi-colonial capitalist growth path’. Davies and his cabinet colleague Patel (the new Minister of Economic Development) embraced the concept of the developmental state.

The post-apartheid state was certainly constrained by international agreements, by poor coordination and uneven capacity, and by the political power of the emerging black bourgeoisie and middle classes. It is not clear, however, that these precluded the possibility of a developmental state. Indeed, the state did intervene extensively in many aspects of the economy. Substantial parts of the economy were run by parastatals. Overall, the critics of the ‘1996 class project’

were right in observing that even the ‘centre-left’ leadership of the ANC – many of whom were involved in business – envisaged a developmental state of some sort. This points to an alternative explanation of the failure of the ‘developmental state’ to achieve inclusive or shared growth: They were pushing for the wrong mix of policies.

### **3. The Flawed Design of the Developmental State**

An alternative interpretation of the failure of the developmental state in South Africa, in terms of its failure to achieve inclusive development or growth, focuses on the design of the project. It was the adoption of an ill-conceived policy mix that resulted in the economy travelling – or more precisely continuing to travel – down an inappropriate economic growth path that ensured that the benefits of growth were not widely-shared, and probably even stunted growth itself.

ANC governments might have failed to implement the grand ISP vision, but they did implement policies that transformed various economic sectors. The case of the clothing manufacturing sector is especially revealing because this was the last major labour-intensive industrial sector in South Africa. If South African industry was to contribute to job creation and thereby render the growth path more inclusive, then sectors such as clothing needed to expand. Rather than expanding, however, the clothing sector experienced massive job destruction, as producers were squeezed between intensified international competition (primarily due to the extraordinary expansion of Chinese production) and rising domestic costs. The high cost of textiles contributed to the high costs of South African clothing manufacturers, but the major factor was a policy commitment by the South African state to a higher-productivity, higher-wage strategy in the sector. Subsidies under IPAP encouraged the shift to a more capital- and skill-intensive sector, which inevitably meant continued job destruction. In the case of the clothing sector, a mix of public policies associated with the developmental state project exacerbated job destruction rather than job creation.

South Africa’s industrial strategy was profoundly shaped by a misdiagnosis of the challenges facing the clothing industry. Under apartheid, many clothing producers had located in Bantustan industrial sites, where they were heavily subsidised and were exempted from any wage regulation. Low wages were understandably associated with apartheid-style exploitation. In the 1990s, the South African Clothing and Textile Workers Union (SACTWU), and its influential deputy general-secretary Ebrahim Patel in particular, developed a

strategy that entailed raising wages, especially at the bottom end, and forcing employers to mechanise, raise productivity and move up the value chain. The strategy meshed with the ideas coming out of the ISP, as well as with the concept of ‘decent work’ that was being developed in the International Labour Organisation (in which Patel was active). The ISP itself had warned that its strategy was not a recipe for net job creation (Joffe *et al.*, 1995: 17), but no one imagined that there would be massive job destruction. At the time South African firms were producing for export as well as for the domestic market, and it seems to have been believed that higher productivity and wages would in fact enhance South Africa’s international competitiveness.

The strategy revolved around two interventions. The first entailed using the collective bargaining machinery to raise minimum wages. The Labour Relations Act – which Patel helped to draft – provided for unions to negotiate with employers’ associations over minimum wages and employment conditions. A ‘collective agreement’ bound the parties to it. Crucially, the bargaining council could then request that the Minister of Labour extend this agreement to all workers in the area covered by the bargaining council, including those employed by firms that were *not* party to the collective agreement. This meant that SACTU could reach an agreement with the higher-wage metropolitan employers, based in Cape Town, and then the Minister of Labour would use the extension mechanism to impose the agreement on the lower-wage firms that had opposed the agreement. In the clothing sector, SACTWU and the Cape Town-based employers agreed to raise the minimum wages in lower-wage areas such as Newcastle in northern KwaZulu-Natal. Bargaining council inspectors pursued non-compliant firms through the courts and shut many of them down (Nattrass and Seekings, 2014b). The second intervention entailed providing subsidies to compliant firms (i.e. firms that were compliant with minimum wages) to improve productivity. The goal was to occupy global niches that were more skill- and capital-intensive than low-wage producers in places like Bangladesh but were less skill- and capital-intensive than the much higher-wage producers in Europe.

The strategy did not anticipate the rise of production in China (and elsewhere) in the 2000s. Chinese exports exploded, not only capturing South Africa’s export markets, but also penetrating deeply into the domestic South African market. Consumers benefited from sharply declining clothes prices, but employment plummeted. The Minister of Trade and Industry rejected the recommendation, in a report commissioned by his own chief economist, that a new wage model be introduced that allowed workers’ wages to be linked to their individual productivity. Instead, the DTI continued to emphasise sector-wide skills development and industrial upgrading. Under the IPAPs from 2007, this entailed massive capital subsidies to compliant clothing manufacturers. The

largest South African producer – Seardel – received, between 2001 and 2014, about R643 million in production subsidies for its textile and clothing divisions. During this time Seardel was effectively taken over by the trade union, through its investment arm (see Natrass and Seekings, 2014c). The huge investment of public funding proved futile. By 2014 Seardel had almost closed down most of its textile and clothing plants. Ironically, at the same time bargaining council inspectors and court sheriffs were trying to shut down unsubsidised firms in places like Newcastle, because they were not paying the increased minimum wages. The jobs lost in the industry included jobs that were destroyed.

The ‘high-productivity, high wage’ strategy was premised on the assumption that there was no alternative. This assumption was echoed in the 2012 NDP (South Africa, 2012), but not without some ambiguity. Living standards would be raised in part through productivity growth, but in part also through increased employment (2012: 25). ‘In the medium term’, the NDP suggested, South Africa had to bolster competitiveness and investment in high value-added industries (as well as increase its mineral exports). The NDP stated that South Africa’s ‘high cost structure’ made it uncompetitive in low-skill manufacturing markets (2012: 32), and so most job creation would occur in small- and medium-sized businesses, mostly producing for the local market (2012: 39). In the longer term, however, ‘South Africa has to do more to enhance competitiveness in areas of comparative advantage that can draw more people into work’, and such areas included mid-skill manufacturing, agriculture and agro-processing, as well as non-industrial export sectors such as tourism (2012: 31, 39). The NDP acknowledged that the question of ‘whether South Africa can mobilise unemployed people into production for export markets’ was ‘contentious’:

‘Some argue that the economy is not competitive in labour-intensive manufacturing because the cost structure is too high, the exchange rate is too volatile, infrastructure is inadequate and the skills base is too limited. Yet South Africa could compete in a range of categories should these concerns be addressed – and in large part, they can be addressed’ (South Africa, 2012: 41).

The NDP did suggest that labour market reforms were necessary:

‘In moving towards decent work for all, the short-term priority must be to raise employment and incentivise the entry of young people into the labour market ... Difficult choices will have to be made. To promote large-scale job creation, the functioning of the labour market will have to improve’ (South Africa, 2012: 41).

Whilst the idea that the developmental state should promote *only* higher productivity and higher wages in industry, even if this meant job losses, was hegemonic within the ANC, it was not unchallenged. Repeatedly between 2010 and 2014, ANC and government leaders clashed over the possibility of creating low-wage jobs, including through wage subsidies, and over the regulation of labour brokers. What was at issue was not simply whether the state should be ‘developmental’, but what kind of policies were appropriate in the South African context for a developmental state.

## **5. The Unexpected Successes of the Welfare State**

The NDP recognised also that improving living standards depended also on ‘a social wage and good-quality public services’ (South Africa, 2012: 26). The NDP sometimes referred to the ‘social wage’ as including cash transfers (through social assistance and public employment programmes) as well as free (or subsidised) public services (i.e. education, health care and municipal services), but sometimes seemed to limit the scope of the ‘social wage’ to the latter. The ANC and government was happy to praise public services (even when the quality was low), was keen on public employment (or workfare), but displayed deep ambivalence over social assistance. The ANC and government expressed repeated misgivings about social assistance, on both clearly ideological grounds (‘handouts’ created ‘dependency’) and supposedly fiscal ones (were these programmes ‘sustainable’ in the long term?). But the strong evidence that the expansion of social assistance was the primary cause of the decline of the income poverty rate in the 2000s and the fact that they benefitted a huge number of voters made it difficult for the ANC and government to resist praising and claiming credit for these programmes.

Like their apartheid-era predecessors, ANC governments since 1994 insisted that South Africa did not and should not have a ‘welfare state’. The ANC’s policy was to promote development, not expand welfare. In his first State of the Nation address President Mandela himself spoke, of his government’s commitment ‘to confront the scourge of unemployment, not by way of handouts but by the creation of work opportunities’. The Department of Welfare reported that spiralling costs meant that the government ‘can no longer afford the social security function’ (South Africa, 1995: 7). The government was obsessed with fraud, and promised to apply the means test more strictly. The Department of Welfare said that it accepted the need for social grants, but, ‘to ensure that those receiving welfare do not become permanently dependent on state aid, social grants for certain target groups will be closely linked to job creation and other

anti-poverty programmes. Successful development programmes will empower people to earn a living, move off the social security system and achieve economic independence' (South Africa, 1996a: 19-20). In 1996, the government proposed abolishing altogether the 'unaffordable' State Maintenance Grant for poor mothers with children. Persuaded to appoint a committee (chaired by Francie Lund) to consider alternatives to abolition, the Department described the committee's role as to 'look at ways of linking social grants with developmental programmes, so that single parent families can move towards becoming self-supporting', and would also look at ways of making absent parents contribute to the costs of raising their children (1996a: 22). A 1997 White Paper committed the government to the goal of 'developmental social welfare' and 're-orienting [its] services towards developmental approaches'. This meant helping people to meet their own needs, through 'the development of human capacity and self-reliance', rather than relying on the state (South Africa, 1997). The Minister of Welfare, Geraldine Fraser-Moleketsi, revealingly told parliament in 1998 that 'welfare has become associated with charity and hand-outs, with food parcels and pensions, something in which it was alleged bleeding hearts got involved'. She called for a shift in thinking about 'welfare', 'from paternalism to self-reliance' and investment in development. The Department's flagship programme involved training unemployed women with young children so as to reduce their 'dependence on social security' (Hansard, 27<sup>th</sup> May 1998, col 3193-5, 3201). The following year, the new Minister, Zola Skweyiya, also emphasised 'the promotion of self-reliance to reduce dependency on ... social grants' (South Africa, 1999: 6). The Department of Welfare was renamed the Department of Social Development.

Despite this, the number of social grants paid expanded rapidly in the 2000s. The major reason for the expansion was that the government accepted the Lund Committee's recommendation that, rather than abolish all provision for poor children, the State Maintenance Grant should be replaced with a parsimonious but wide-reaching Child Support Grant. The means-tested Child Support Grant was initially provided for poor children to the age of seven, but the government repeatedly raised the age threshold, eventually to the age of eighteen. The age threshold for men to receive the old-age pension was also reduced to sixty years (the same as for women). At the time of the 1994 elections, about 2.4 million people received social pensions or grants, costing less than 2 percent of GDP. By the time of the 2014 elections, about 16 million grants and pensions were paid every month, at a cost of about 3.5 percent of GDP.

The expansion was not boundless, however. When a new committee of inquiry – chaired by Vivienne Taylor – tentatively recommended a basic income grant, the government recoiled. Government spokesman Joel Netshitenzhe said that able-bodied adults should not receive 'handouts' but should rather be helped to

‘enjoy the opportunity, the dignity and the rewards of work’. The government could not support the basic income grant because it had a rather different ‘philosophy’ (*Sunday Times*, 28<sup>th</sup> July 2002; see Matisonn and Seekings, 2003; Meth, 2004; Seekings and Matisonn, 2012). The Department of Social Development continued to refer to the need for a ‘paradigm shift’ from a welfarist approach to ‘developmental welfare’ (South Africa, 2006x). The ANC, in its 2007 policy discussion document on ‘social transformation’, emphasised the ‘dignity of work’ and the importance of public employment programmes as an alternative to social assistance. Arguing (rather unclearly) against a basic income grant, the ANC suggested that discussion should take place ‘in the context of our challenges as a *developmental state* rather than against the ideological backdrop of a *welfare state*’ (ANC, 2007: 3, emphasis added; see also Barchiesi, 2011).

The expansion of social grants in the face of ambivalence within the ANC and government was driven in part by litigation, citing the social and economic rights included in the constitution. More importantly, it reflected the shrewd leadership of Zola Skweyiya, who served as Minister of Social Development from 1999 to 2009. Skweyiya mobilised research which showed not only that the expansion of grants was behind the (modest) decline in income poverty rates, but also that many of the objections to grants – for example, that they encouraged teenage pregnancy or discouraged labour market participation – were unfounded. Indeed, Skweyiya mobilised research which argued that grants were developmental, in that they facilitated education, job search and entrepreneurship.

Whilst the state as a whole displayed very uneven capacity to deliver, the administration of grants and pensions proved a success story. This had not been true initially, when the administration of pensions and grants was the responsibility of provincial governments. In 2002, the press reported that 120 people were bringing high court claims each week against the Eastern Cape provincial government for non-payment of grants. A judge blasted the provincial government: ‘Many persons in this province are suffering real hardship through the ineffectiveness of the public service at provincial level’ (*Mail and Guardian*, 6<sup>th</sup> September 2002). It allegedly took as long as two years to process applications. When Members of Parliament conducted a study tour to the Eastern Cape in 2003, they found dirty offices, shambolic filing systems, long queues, and officials who were absent or delinquent, treating the public with contempt. More than 10,000 state officials were also implicated in fraudulent claims. In the face of repeated embarrassments, especially in the Eastern Cape, a centralised South African Social Security Agency (SASSA) was established in 2004. SASSA described its ‘mission’ in terms of cost effectiveness, efficiency and the use of modern technology, so as to ‘pay the

right social grant to the right person at the right time and place'. The actual payment was outsourced through competitive tendering procedures to private contractors. Whilst the award of the national contract to Net1 CPS was later found in court to have been unprocedural, the actual payment of grants and pensions seems to have improved greatly.

In terms of ensuring that any of the benefits of economic growth reached the poor, the welfare state was a modest success, in contrast to the general failure of the developmental state. Social assistance reduced substantially both the poverty headcount (the number of people below a designated poverty line) and the poverty gap (the aggregate amount by which the incomes of poor households fall below the poverty line) (Samson, 2002; Bhorat, 2003; Armstrong and Burger, 2009; Leibbrandt *et al.*, 2010; Devereux *et al.*, 2011; Heinrich *et al.*, 2012; World Bank, 2014). Because they were well-targeted on the poor and were financed out of general taxation, social assistance programmes were highly redistributive (Van der Berg, 2005; Seekings and Natrass, 2005; World Bank, 2014). The rising coverage of social assistance grants meant that, by 2006, social assistance constituted the primary source of income for one half of all households in the poorest two income quintiles (Leibbrandt *et al.*, 2010: 61). The old-age pension, child support grant and disability grant increased the income share of the two poorest income quintiles in 2006 from 3.3 percent of total pre-transfer income to 7.6 percent of income including grants (Van der Berg and Siebrits, 2010: 20). By 2011, cash transfers reduced ultra-poverty massively, from a rate of 34.4 percent to less than 12 percent (using a poverty line of US\$1.25/day, at purchasing power parity) – although the reduction was less dramatic using higher poverty lines. In reducing poverty, tax-financed cash transfers also reduced inequality. The Gini coefficient for income inequality was reduced by social assistance from 0.67 to 0.58 in 1995, and from 0.69 to 0.52 in 2006 (Van der Berg, 2009: 24; see also World Bank, 2014).

## **6. The Relevance of the South African Experience to the Southern African Region**

The social assistance system was the unanticipated hero of poverty-reduction in post-apartheid South Africa. Reluctantly, the ANC government embraced cash transfers, pending job creation on a scale large enough to reduce unemployment and poverty. The welfare state was the stand-in for the failed developmental state. Yet, even in 2012, the ANC government had no clear sense of how it would navigate around the political, social and economic obstacles to inclusive economic growth, given that this would require the large-scale creation of jobs for less skilled workers, which would require low-wage jobs. One possible

solution was some kind of a wage subsidy, but neither the design nor the short-term performance of the 2013 wage subsidy scheme (under the 2013 Employment Tax Incentive Act) were encouraging. COSATU proposals to double the minimum wage in most sectors, through the introduction of a national minimum at a high level, posed a further obstacle to job creation. The NDP's scenarios included one in which jobs were not created. In this scenario, the state could only achieve its target reduction of unemployment through a massive public employment programme. It seems likely that, in one way or another, the welfare state is likely to continue to be called on to mitigate poverty.

In this, the South African state is not out-of-line with shifting international opinion. As Hanlon, Hulme and Barrientos (2010) put it, the idea of 'just giving money to the poor' has come to constitute a new paradigm of development, embraced in different ways by the World Bank, ILO and donors such as DfID (see also Barrientos and Santibáñez, 2009; Leisering, 2009). The South African model of unconditional but categorical grants – grants targeted on deserving categories of poor people, but not tied to specific behaviours – had already spread to South Africa's neighbours. Namibia has old-age pensions and disability grants, as well as a limited State Maintenance Grant system. Old age pensions were introduced in Botswana in 1996, Lesotho in 2004 and Swaziland in 2005. Botswana has an extensive set of cash transfer programmes, including public employment programmes. Lesotho is in the process of introducing a child grant. Further north, cash transfer programmes are being piloted, and in some cases expanded. Uganda is considering a national old-age pension programme, for example. The costs of such programmes are generally modest in comparison to the total flows of aid into countries, or to GDP. In a region in which development planning has generally been underwhelming, such programmes offer an important mechanism for addressing the worst of poverty.

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