SECOND CARNEGIE INQUIRY INTO POVERTY
AND DEVELOPMENT IN SOUTHERN AFRICA

Public expenditure and the poor:
Political and economic constraints
on policy choices up to the year 2000

by

Charles Simkins

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A number of theorists of the modern state take as their point of departure that it must do two things: 

(a) provide circumstances in which accumulation can take place; and 

(b) legitimate the system of authority which underpins this accumulation. 

There may be tension between accumulation and legitimation to the point of producing crises of greater or lesser magnitude. David Yudelman's book The Emergence of Modern South Africa analyses the relationship between the state, mining capital and white mining workers between 1902 and 1933 in these terms. This study, too, will, in a preliminary fashion, consider elements of the relationship between legitimacy and accumulation here as they affect the welfare components of public expenditure and are likely to affect them up to the year 2000. 

The exposition will start with the political aspects considering in turn the content to be given to the often loosely used concept 'legitimacy', the relevance to South Africa of the concept 'fiscal crisis' used to denote certain conditions in advanced capitalist economies, and the ruling fiscal principles (especially in relation to welfare expenditure and its financing) in South Africa at present and as affected by the new constitutional legis-
The economic sections will comprise a look at South African welfare expenditure from 1949/50 to the present in international context, and a consideration of projected growth rates to the year 2000 which define the room there will be for movement towards equal per capita expenditures as between the races. The conclusion will draw together the political and economic components and attempt to define the range of possibilities, indicating the implications for the role of public expenditure on welfare in reducing poverty.

In its most extended sense, 'legitimacy' means 'public support for the form of government'. It must mean at least this to distinguish it from 'public support of the government', the distinction being that a person who accepts the legitimacy of the government may oppose a particular government while being obliged to obey its laws etc. because he accepts the authority relations involved in the form of government. Contexts in which this distinction is widely made are contexts in which certain political practices (e.g. that of loyal opposition) are possible which would not otherwise be possible; the presence of legitimate government underpins a more sophisticated, more civilised politics than would be possible in its absence.

In order to go beyond the minimal definition of legitimacy just offered, one must consider the possible bases of it. In a famous passage, Weber wrote:
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'It is by no means true that every case of submissiveness to persons in positions of power is primarily (or even at all) oriented to this belief (in legitimacy). Loyalty may be hypocritically simulated by individuals or by whole groups on purely opportunistic grounds, or carried out in practice for reasons of material self-interest. On people may submit from individual weakness and helplessness because there is no acceptable alternative. But these considerations are not decisive for the classification of types of imperative co-ordination. What is important is the fact that in a given case the particular claim to legitimacy is to a significant degree and according to its type treated as "valid" ..........'

(Economy and Society vol 1 section III.I.1)

If submission to authority is sought by rulers, then, there are a number of resources available to them:

- legitimacy in the Weberian sense of belief in the validity of the authority system. As is well-known Weber thought this belief could be grounded in different ways: on 'rationality', tradition or charisma, or a combination of these.
- self-interest on the part of individuals or groups
- unavailability of acceptable alternatives to individuals
or groups
- coercion.

From this point of view, legitimacy has a number of substitutes, but none as good as itself. Belief in the validity of the authority system (at the ideal-type extreme) is independent both of the material outputs of the system (as self-interested submission is not) and of the ability of the system to support coercion. Intelligent rulers, therefore, will always be concerned with the consolidation and extension of legitimacy where this is possible. Because aspects of South African state policy can be discussed in these terms, it is worth, at this stage, briefly considering possible grounds for legitimacy in the context of the modern capitalist state.

Weber thought that in such a context the appropriate basis was 'a belief in the "legality" of patterns of normative rules and the right of those elevated to authority under such rules to issue commands' (Economy and Society vol 1 section III.1.2). So concerned was he with the second, administrative half of his characterisation that he had little to say about the grounding of a belief in the 'legality' of normative rules (i.e. law). As soon as one turns one's attention to this problem, two sets of issues have to be confronted:

(i) procedural issues. One major tradition in political philosophy regards laws as valid in the Weberian sense if
they are issued by an effective sovereign. This is Austin's command theory of law and it rests essentially on the justification that an effective sovereign protects his subjects against the chaos of a 'state of nature'. Another tradition regards laws as valid insofar as the people to whom they apply participate in making them. Clearly there is much scope for debate about what 'participation' might mean in this context; it is equally clear, however, that the second criterion for validity is more demanding than the first.

(ii) substantive issues. Might certain normative rules, despite their having been made in a procedurally valid fashion, be illegitimate on the grounds of their context? While the judges at the Nuremburg trials did not repudiate the command theory of law as such, for instance, it was held that people had an obligation to disobey orders of validly made (in command theory terms) if the content of such orders was grotesquely immoral. Here legitimacy is linked to the dictates of the individual conscience.

Perhaps the most purely rational attempt to deal with these issues has been made by Habermas. He starts by observing:

'If belief in legitimacy is conceived as an empirical phenomenon without an immanent relation to truth, the grounds upon which it is explicitly based have only psychological significance. Whether such grounds can sufficiently
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stabilize a given belief depends on the institutionalized prejudices and observable behavioural dispositions of the group in question. If, on the other hand, every effective belief in legitimacy is assumed to have an immanent relation to truth, the grounds on which it is explicitly based contain a rational validity claim that can be tested and criticized independently of the psychological effect of these grounds' (Legitimation Crisis, Heinemann, 1976 p.97).

An element of an authority system, then, has a rationally based legitimacy if under conditions of a co-operative search for truth, a consensus in favour of acceptance of the norm arises argumentatively. Or to put the thing another way, a legitimate (in this sense) norm implies the possibility of a Socratic dialogue in which the outcome supports the norm. Rationalism can go no further than this; indeed what is being here restated is the rationalist ideal of a wholly transparent, wholly justifiable society.

The principal theoretical objection to this programme takes as its point of departure Hume's critique of rationalism in moral theory. That is to say, the outcome of a Socratic dialogue in relation to a norm may be neither acceptance nor rejection of it but an uncovering of a value divergence between the parties about which no further argument is possible. Those impressed by the force of Hume's
arguments would therefore prefer to talk about the relation of legitimacy to fairness and to acknowledge that various conceptions of fairness, or alternative value constellations are available. The distribution of legitimating beliefs is related to the distribution of concepts of fairness which in turn is related to the distribution of values which is necessarily an empirical question. One might point, for instance, to the articulations of divergent concepts of fairness in Rawls' Theory of Justice (which underpins the legitimacy of the welfare state, roughly speaking) and in Nozick's Anarchy, State and Utopia (which supports a minimal state in a free enterprise environment). Clearly both these works can be argued about in respect of their coherence, validity of particular arguments etc; but it is also clear that divergent conceptions of human nature and relationships inform these works. Once one has clarified what is at stake between them, argument has reached its limits. In a legitimacy contest between the welfare state and the minimal state, where the issues are well understood, the outcome will be determined by the distribution of the alternative concepts of human nature and relationships and the values that lie behind them.

While rational legitimation in Habermas's sense may not be even a theoretical possibility and while the more modest empirical programme of rational enquiry into legitimating belief is far from being universally practical, it nonetheless seems (and for the grounds cited by Weber) that
rational grounds for legitimation claims must play a considerable role in modern capitalist societies. In any actual such society, however, other grounds for legitimacy exist, of which tradition is important.

Traditional legitimacy rests, according to Weber, 'on an established belief in the sanctity of immemorial traditions and the legitimacy of the status of those exercising authority under them' (Economy and Society, vol I section III.1.2). 'Immemorial' goes too far; it tends to imply that traditional legitimacy is appropriate in static situations only. Burke had a more nuanced grasp of the situation:

"But is it in destroying and pulling down that skill is displayed? Your mob can do this as well at least as your assemblies. The shallowest understanding, the rudest hand, is more than equal to that task. Rage and frenzy will pull down more in half an hour, than prudence, deliberation, and foresight can build up in a hundred years ...... At once to preserve and reform is quite another thing. When the useful parts of an old establishment are kept, and what is superadded is to be fitted to what is retained, a vigorous mind, steady persevering attention, various powers of comparison and combination, and the resources of an understanding fruitful in expedients are to be exercised ..... But
you may object - "a process of this kind is slow, it is not fit for an assembly, which glories in performing in a few months the work of ages. Such a mode of reforming, possibly might take up many years." Without question it might; and it ought. It is one of the excellencies of a method in which time is amongst the assistants, that its operation is slow, and in some cases almost imperceptible. If circumspection and caution are a part of wisdom, when we work only upon inanimate matter, surely they become a part of duty too, when the subject of our demolition and construction is not brick and timber, but sentient beings by the sudden alteration of whose state, condition, and habits, multitudes may be rendered miserable."


For Burke, time legitimates an institution which operates successfully. It does so, because it becomes part of an accepted way of doing things, and the legitimation is enhanced by a continual quiet introduction of necessary reforms which avoid upheaval. Legitimation depends on performance, but it requires only an adequate performance and discourages a restless rationalist seeking for the best possible outcome. Traditional claims to legitimacy are at their most subtle and appealing when they present a successful institution as
conforming to nature and an embodiment of the wisdom of generations, on the one hand, and when they point to the limitations of the individual human intellect ('the fallible and feeble contrivances of our reason' - Reflections p. 121) on the other.

Traditional legitimation, then, may be a route, even in a modern capitalist democracy, by which conditional acceptance of an element in an authority system becomes less conditional over time. The essential thing about it is that it is slow. Some have thought otherwise, such as President Nixon's aide Dr Charles Colson who delivered his opinion in a pithy and obscene one-liner of some notoriety. Insofar as this was representative of the Nixon administration's approach to legitimacy, it was shown quite quickly to be unsound.

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The argument now becomes more specific insofar as the legitimacy of the norms governing public expenditure (particularly on 'welfare' items) is considered. A framework, developed in the context of advanced capitalist economies, exists for the discussion, namely the debate about the notion of a 'fiscal crisis'.

What is a fiscal crisis? The contemporary conception was given currency by the Marxist scholar J. O'Connor in the early seventies; liberal and conservative scholars have also interested themselves in the issue. It is possible to
extract the main themes from a useful survey article by Fred Block and these can be summarised as follows:

- (Block's working definition): "Fiscal crisis is a condition of national societies where the expenditure of all levels of government taken together expands as a percentage of GNP fast enough to produce such symptoms as inflationary pressure, tax resistance, strong pressures for limits on government spending, and a pattern of fiscal pressure on state and local governments."  

- Societies are particularly vulnerable to fiscal crisis during sustained periods of low economic growth. Pressures to sustain the growth of spending at historical levels cannot be matched by revenues and governments are forced to increase taxes or institute or increase deficit financing.

- Spending pressures originate from the necessity to maintain accumulation through e.g. provision of physical and human capital. They also originate from the demands of the working class for an improved standard of living. Cutback in the former expenses prejudices future growth prospects. Cutback in the latter involves altering the terms of the struggle between workers and the rest to the detriment of the former and its prospects will depend on the strength and organisation of the working class rather than merely its size as well as the organisation of the political system. Struggle at this level is understood differently by analysts of differing political views.
12.

- Raised taxes may produce a tax revolt, especially if the taxes are highly visible e.g. property and income taxes.

- Deficit financing has the effect of raising inflation in many circumstances. It also raises the interest rates, a mechanism whereby private investment is 'crowded out'. Depending on the use foregone funds are put to, this may lower growth rates.

- The openness of an economy to trade produces pressures for government spending as a way of protecting the population from the economic fluctuations that result from a high level of dependence on the international market.

- The low growth which has sparked off fiscal crisis in advanced capitalist economies has been attributed to various factors: profit squeeze induced by wages and taxes, a period of downswing in the (alleged) long-period Kondratieff cycle arising from unevenness in the pace of technological innovation, the oil crisis etc.

- A major sociological component of a fiscal crisis is a legitimacy crisis for the state. A slow or no increase in real wages undermines the claim for support based on continuous material improvement and leads to a breakdown in the mechanisms of social control, among which are the legitimacy of the political party system as a bulwark against the untrammeled operation of a multitude of interest groups. Formulation of policies in the general interest then become much more difficult.
The main thing requiring analysis here is the conceptualisation of 'legitimacy' in this literature. The socialist critique of the rational legitimation claims of the liberal capitalist state is that while citizens are formally equal before the law, relations of production are such that there is a great class bias in the authority relations of the system. The riposte to this is the observation that alternative systems would also have their inequalities (so the debate is about degree, not existence) and that their growth potential might be less. A reasonable basis for assessing systems might be their capability for improving the lot of their least advantaged members. (This has been made a cornerstone of Rawls's approach.) Systems can be legitimated according to their potential performance in this respect. However, potential performance can only be established by a series of counterfactual arguments difficult to assemble and subject to constant dispute, so that in practice actual performance may be taken as a proxy for potential performance. In this way the 'welfare state' came to draw legitimacy from rapid improvement in working class conditions from 1945 until the end of the 1960s, made possible in great measure by high rates of economic growth during that period.

The interesting question then is: what happens to legitimacy when the rate of growth drops to a low value or zero or even becomes negative on occasion? There seems to be no necessity for a crisis of legitimacy, for it may be
accepted that the growth rate could not be raised by any other system. There will be (and has been, since the early 1970s) a political struggle about whose expectations of future improvements will be disappointed and about who will bear the burden of a cut in standards, but this political struggle may be waged with very little damage done to belief in legitimacy of the system. As Bloch observes: 'Theorists on the left tend to see the combination of fiscal crisis and legitimation crisis as opening the way for a broadly based popular assault on capitalist institutions. Thus far, however, there has been little discussion of why this assault has not yet manifested itself despite close to ten years of fiscal crisis.' The brutal answer is that, while fiscal crisis is a symptom of an unresolved political struggle, there has not been a legitimation crisis. In this the depression of the mid and late 70s and the milder one of the early 80s differ from the depression of the 30s - and even then, it is unwise to assume that decline in material conditions directly weakened the claims to legitimacy of the liberal capitalist state to a marked degree. More important was the rise of an alternative authority system - fascism - which attracted people on the right and caused enrolments in Communist Parties among those who believed that liberal capitalism led on to fascism or at least was unable to contain it.

A particular kind of political struggle, then, leads to a particular kind of fiscal crisis as described above.
Can we discern the lineaments of this process in South Africa?

Despite the presence of a number of symptoms - an inflation rate currently high by international standards, a well-organised and articulate lobby in favour of low taxes and limited government, a not very impressive growth record in recent years - the answer must be no. Participation by the public sector in production has increased only mildly since the war, the exchequer deficit as a percentage of exchequer issues was lower in 1981 than it was in 1970 and the real aggregate growth of public services over the period 1976-1982 has been described as near stagnation. Most importantly, there has been no overt political struggle about the broad lines of budgetary policy.

If there is no fiscal crisis at present, what are the prospects for one? A crucial missing element at present is the organisation of the working class. Historically divided along ethnic lines, South African workers, insofar as they are unionised at all, are affiliated to one of several trade union federations, or to none. And, of course, there never has been a broadly based socialist or social-democratic party. Not only that, the greater part of the working class is disfranchised. Bromberger has alluded to this point:

'... we can perhaps agree that a government in the Keynesian era was more likely to resort to the drastic use of macro-economic restraint if the segment of the working class that would suffer unemployment was without political representation.'
This view was widely expressed about the extremely sharp and successful government response to the balance of payments crisis in 1975, which led to a prolonged recession.  

This is a situation which can and will change. Industrial relations reform was undertaken in recognition of growing working class power at the place of work and provides a context in which further unionisation will take place. If the new constitution is implemented (and the rest of this study assumes that it will be) then more of the working class will be enfranchised, if only on a 'junior partner' basis. Trade union federations will be obliged to co-operate in some minimal sense as more and more serious business comes on to their agendas. All this points to a somewhat more coherent and powerful degree of working class organisation which will progressively weaken the possibility of resolving fiscal difficulties at the expense of that class. There is every reason for supposing that this will be a rather slow progress — historical rivalries, a substantial degree of coercion in the political system, persistent unemployment and large sectoral differences in conditions will all pose problems.

All this is at the level of political and economic struggle. There is one dimension of the problem where considerations of legitimacy are important and that is the allocation of public expenditure under the new constitution. The next section considers what is involved.
Our concern here will be with state expenditures 'directly allocable by race group' to use McGrath's phase. These expenditures are on cash transfers, goods and services consumed by individuals so that estimates of total expenditure on each race group can be made on assumptions in principle unproblematic. The heads of expenditure can be itemised as follows:

- agricultural services and subsidies
- education
- health
- transfer payments: Social pensions of various types,
  Unemployment Insurance and Workman's Compensation
- other social services: subsidies on sheltered employment,
  subsidies on the transport of black passengers, welfare
  and community services and interest losses on housing.

These make up state welfare expenditures in the broader sense of the term 'welfare'. Most of the items on the list also appear in the Schedule to Section 14 of the new constitution as 'own affairs'. The mode of their listing is of significance and the relevant clauses of the schedule are reproduced below:

'1. Social welfare, but subject to any general law in relation to -
(a) norms and standards for the provision or financing of welfare services;
(b) the control of the collection of money and other contributions from members of the public for welfare services or charity; and
(c) the registration of social workers, and control over their profession.

2. Education at all levels, including -

(1) instruction by way of correspondence, and institutions providing such instruction;
(2) the training of adults in the trades at centres established by the State President acting as provided in section 19(1)(a); and
(3) training of cadets at schools in terms of section 3(1)(a) of, and subject to, the Defence Act, 1957, and official school sport,
but subject to any general law in relation to -
(a) norms and standards for the financing of running and capital costs of education;
(b) salaries and conditions of employment of staff and professional registration of teachers; and
(c) norms and standards for syllabuses and examination and for certification of qualifications ... 

4. Health matters, comprising the following, namely -

(1) hospitals, clinics and similar or related institutions;
(2) medical services at schools and for indigent persons;
(3) health and nutritional guidance; and
(4) the registration of and control over private hospitals,
but subject to any general law in relation to such matters.

5. Community development, comprising the following, namely -

(1) housing

(2) development of the community in any area declared by or under any general law as an area for the use of the population group in question, including the establishment, development and renovation of towns, and the control over and disposal of land (whether by alienation or otherwise) acquired or made available for that purpose; and

(3) rent control and control over and clearance of squatting, in such an area in terms of any general law, but subject to -

(a) any general law in relation to norms, standards and income groups for the financing of housing; and

(b) the provision of the general law referred to in paragraph (2).

In order to interpret these provisions for our purposes, it is necessary to develop an account of the budgetary process under the new constitution. The first thing to note is that own financial affairs are very limited in scope.

Section 11 of the Schedule specifies:

'Finance in relation to own affairs of the population group in question, including -

(1) estimates of revenue and expenditure, but excluding the form in which such estimates shall be prepared;

(2) the appropriation of moneys for the purposes of such
estimates, but excluding such appropriation of moneys for any purpose other than that for which they are by or under general law made available for appropriation;

(3) levies authorized by or under general law, or services rendered over and above payments for such services;

(4) the receipt of donations;

(5) the making of donations not amounting to a supplementation of appropriations contemplated in paragraph (2); and

(6) the control over the collection and utilization of revenue, subject to the provision of the Exchequer and Audit Act, 1975, but excluding the levying of taxes and raising of loans.'

These provisions have their counterpart in sections 80-82 of the constitution:

'80. All revenues of the Republic, from whatever source arising, shall vest in the State President.

81. (1) There shall be a State Revenue Fund, into which shall be paid all revenues as defined in section 1 of the Exchequer and Audit Act, 1975.

(2) No moneys shall be withdrawn from the State Revenue Fund, except in accordance with an Act of Parliament.

82. (1) In respect of the State Revenue Fund there shall be -

(a) a State Revenue Account, which shall, subject to the provision of paragraph (b) and subsection (2), be credited with all revenues and from which shall be defrayed all expenditure and be paid any amounts with which it is charged
in terms of this Act or any other law;
(b) the accounts in connection with the administration of own affairs of the different population groups, which may be prescribed by any general law and which shall be credited with all revenues accruing to them in terms of this Act or any other law and from which shall be defrayed all expenditure and be paid any amounts with which they are charged in terms of this Act or any other law.

(2) Where any law dealing with own affairs of a population group provides that revenue so mentioned shall be defrayed from that fund, such revenue shall be paid into, and such expenditure shall be defrayed from, the appropriate account contemplated in subsection (1)(b).

All this establishes that the budgetary process will be a complex mixture of own and general legislation. The best indication of how the process will in fact work is contained in Chapter 4 of the Second Report of the Constitutional Committee of the President's Council on the Adaptation of Constitutional Structures in South Africa. The outline can be summarised as follows:

- There will be a Permanent Parliamentary Budget Committee consisting of representatives from all three houses. This Committee will be furnished with expert staff.
- This Permanent Committee will be involved in discussions with the Department of Finance at the initial stages of estimates of revenue and the "survey" of the economy that
must precede all detailed discussion of budgetary proposals. (p.45). These discussions will be confidential.

- The Minister of Finance will then prepare the budget and, once it is approved by the Cabinet, it will be introduced for information at a joint sitting of the three houses.
- After that it will be considered by the Permanent Committee who will try and reach consensus about it, but can decide on issues by resolution. Its decisions will be conveyed to the three houses as information and recommendations.
- Then there will be a second reading debate in each house separately. After that the President's vote will be dealt with and then the other votes will be dealt with by specialist Permanent Parliamentary Committees in public. The individual votes may then be approved either by consensus or majority resolution.
- 'Thereafter, all votes, (including those of a segmental nature, which will be disposed of in separate Chambers) will be sent simultaneously as a total package, together with a report, to all three Chambers for debate and approval or rejection' (p.46).
- This process is expected by the signatories to the Report to 'afford opportunities for negotiation which will limit to the minimum the possibility of veto by any Chamber' (p.46).

Should there be a deadlock, the provisions of section 32 relating to disagreement among the Houses could be applied by sending the relevant legislation to the President's Council to receive its final form.
The really interesting thing about these constitutional provisions and outlines of procedure is that they indicate a decisive rejection of one set of possible fiscal principles in favour of another.

The rejected set is outlined in an article by Terreblanche. Terreblanche took the fundamental question in relation to new fiscal principles to be: 'in what way can sufficient political bargaining power be institutionalized for the Coloureds and Indians to enable them to improve their fiscal and welfare positions without giving that amount of political power that can be misused to overstrain the capacity of the South African economy and create economic chaos?'

His proposed answer was to observe that 'in the democratic system of the Western World the necessary fiscal restraint and financial discipline is brought about by the tax capacity of the economy and the tax willingness of the voters.' The application of this to a new South African constitution was to relate expenditure on each population group's own affairs to the contribution of that population group to state revenue. The relation could be direct, or there could be a development subsidy made available to a poorer population group especially if such a group showed willing by making a special tax effort among its members.

Attractive though this proposal might seem in introducing budget constraints to produce rational economic behaviour and in combining the standard commercial principle of 'you
get what you pay for' with the possibility of generosity, on closer examination it can be seen to have a number of flaws - given that both black affairs and general affairs have to be financed, the budget for own affairs for Whites, Coloureds and Indians might well bear a rather tenuous relation to their respective contributions to state revenue. The more tenuous the relation, the less the ability of these contributions to function as budget constraints; - it assumes that the question 'what do the various population groups contribute to state revenue?' is a purely factual one. The work of McGrath and Wilson both indicate that it is not. Wilson raises explicitly the normative issues raised by the racial allocation of both income and consumption taxes as well as company tax and royalties. He also observes that 'you get what you pay for' as a fiscal principle has for some time and for many people been supplanted with an expectation that the State will carry out a measure of redistribution towards the poor. And when McGrath asks the question 'how far has there been a fiscal redistribution of income between the races?' he is only able to provide us with a rather wide range of answers. Some of this range is accounted for by uncertainty about facts; but underlying many of his alternative assumptions are alternative values. Now the observation that there are normative issues here is not in itself fatal, provided there is consensus about them but when it is borne in mind that some discussion of the racial allocation of benefits from general affairs
expenditure would also be necessary one sees that issues such as the following would be raised:

- to what extent is the pre-tax distribution of income justified?
- who benefits from expenditure on police, prisons and the Defence Force?
- these are questions about which one would expect not a consensus but a rather sharp divergence of opinion.
- it makes the 'development subsidy' which would function as the index of redistribution (although unreasonably) highly visible.

The alternative which seems to have been developed starts in a different place, with the development of norms and standards in relation to the various heads of expenditure mentioned at the beginning of this section. The excerpts from the schedule show clearly that this will be a general affair. There will be powerful forces working in favour of making the norms and standards the same for each population group. Coloureds and Indians will have to pass legislation to establish these norms and standards and any attempt to have one standard for Whites, Coloureds and Indians and a lower one for Blacks could have costly repercussions. Of course, things will start with a large number of unequal norms and standards and changes will have to be negotiated. It is recognised that concessions will have to be made. As the President's Council report put it:
As the process of reform forges ahead, the group leaders' credibility will come to depend largely on their real achievements in improving the quality of life of their groups in economic respects. During the preparatory stage of the Budget, this will call for the greatest possible display of openheartedness and openhandedness.

This alternative avoids the difficulty of the Terreblanche approach. Racial allocation of state revenue and expenditure becomes unnecessary, normative debates threatening to wreck the achievement of consensus are finessed and misleading measures of redistribution are avoided. Above all the way is opened for progress towards a much more defensible fiscal configuration. The rate at which this progress can be made depends on economic variables and it is to an examination of these that we now turn.

IV

Two of McGrath's tables summarise the history of welfare expenditures (in the broad sense of the term) from 1949/50 to 1975/76. These are reproduced below in slightly revised form:
The Composition of Gross Current Government Expenditure in South Africa 1949/50 - 1975/76\(^a\) (Percentages)

<table>
<thead>
<tr>
<th>Year</th>
<th>1949/50</th>
<th>1959/60</th>
<th>1969/70</th>
<th>1975/76</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agricultural services and subsidies</td>
<td>6</td>
<td>7</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>2. Education</td>
<td>18</td>
<td>19</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>3. Health and hospitals</td>
<td>13</td>
<td>13</td>
<td>8</td>
<td>7</td>
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<tr>
<td>4. Transfer payments</td>
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<td>7</td>
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<tr>
<td>5. Others</td>
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<td></td>
<td>54</td>
<td>59</td>
<td>48</td>
<td>45</td>
</tr>
</tbody>
</table>

Gross current expenditures as a percentage of personal income 24 21 23 25

'Welfare' expenditures as a percentage of personal income 13.0 12.4 11.0 11.2

Items 3, 4, 5 as a percentage of personal income 7.2 6.9 5.1 4.5

The picture which emerges is a sustained but gradual decline in state welfare expenditures as a percentage of personal income between 1950 and 1970. The sector in which the decline was most marked was health, with smaller declines in transfer payments and other payments and more or less static situations in subsidies and education.

There has been a small shift in the share of this expenditure going to the various racial groups - a drop for Whites and rises for everyone else.
### Shares of expenditures directly allocated by racial group

**1949/50 - 1975/76 (percentages)**

<table>
<thead>
<tr>
<th>Race group</th>
<th>1949/50</th>
<th>1959/60</th>
<th>1969/70</th>
<th>1975/76</th>
</tr>
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<td>4</td>
<td>4</td>
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<td>Black</td>
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<td>28</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Where different per capita expenditures are involved, relatively small shifts in shares of expenditure may well be compatible with quite large differences in growth of cover. Nonetheless the observed pattern is quite unusual when considered against the background of international experience.

Wilensky\(^1\) has data on social security spending for 64 countries ranked by GNP per capita in 1966. This includes 'compulsory social insurance, certain voluntary social insurance schemes, family allowance schemes, special schemes for public employees, public health services, public assistance and benefits granted to war victims.' If we focus attention on semi-developed countries by excluding from consideration the 16 richest and the 16 poorest countries and estimate the coefficients of a simplified Chenery and Syrquin type cross-sectional equation

\[
X = \alpha + B_1 \ln Y + B_2 (\ln Y)^2
\]
where $X$ is proportion of GNP spent on social security and $Y$ is income per capita, $\alpha$ is found to be 1.3973, $\beta_1 = -0.4858$ and $\beta_2 = 0.0435$ which has a positive and increasing slope from the point of $Y = 266$ in 1966 prices i.e. the proportion tends to rise with economic development in the range of interest to us. The predicted value of $X$ is 3.6% at a per capita income of $300, 6.3% at $600$ and 11.0% at $1000$.

Note what this regression establishes. It establishes that in semi-developed countries generally the percentage of GNP going to public welfare expenditures (in Wilensky's sense of the term) tends to rise as income per capita rises. If we are prepared to posit a development path to which capitalist countries partly adhere and partly deviate each in their own fashion, cross-sectional results can be interpreted as indicating an average path.

Now the definition of social security used corresponds approximately to McGrath's headings, health and hospitals, transfer payments and other social services so we can read off from his table (reproduced above) and from national income statistics what was happening in South Africa and compare it with the international cross-section data.
Social Security as a proportion of GNP, South Africa and International

<table>
<thead>
<tr>
<th>Date</th>
<th>Per capita S.A. income in 1966 U.S. dollars</th>
<th>Actual social security expenditure as a percentage of personal income</th>
<th>Predicted values from international cross-section</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949</td>
<td>362</td>
<td>7,2</td>
<td>3,9</td>
</tr>
<tr>
<td>1959</td>
<td>441</td>
<td>6,9</td>
<td>4,6</td>
</tr>
<tr>
<td>1969</td>
<td>602</td>
<td>5,1</td>
<td>6,4</td>
</tr>
<tr>
<td>1975</td>
<td>658</td>
<td>4,5</td>
<td>7,0</td>
</tr>
</tbody>
</table>

Whatsoever the inexactitudes of this sort of international study or of comparing personal income fractions with those of GNP the table's main feature - a perverse movement since 1949 in the proportion of the GNP devoted to social security expenditure by comparison with a norm taken from a cross-sectional study - must impress us. In part it may be explained by changing coverage of welfare expenditure in a context of greatly different entitlements, but it must also be a testimony to a period of rigourous political repression. One can see that straight away when considering, for instance, the damage done to black education in the second half of the 1950s and most of the 1960s by the Verwoerdian financing principle.

Are there any indications from the post-1975/6 period to indicate that this percentage decline has been halted or reversed? One is the rapid expansion of education; another is the rise in old age pensions. No clear indication in
respect of agricultural subsidies and health are apparent. Housing policy, on the other hand, is steadily deteriorating under the influence of misguided principles, a circumstance we shall come to regret as surely as we now regret earlier black education policy. There has been some progress on eliminating discrepancies in norms and standards between races. The picture is probably one of slow general but not uniform improvement.

For the reasons mentioned in section III minds are going to have to be concentrated on the question of speeding up and making more reliable progress towards a generally supportable fiscal dispensation. In considering the options ahead one issue is important above all others - how fast is the economy likely to grow and what implications does that have?

V

We are concerned here with the growth in real income per capita, so expectations must be established about real economic growth rates and population growth rates. We shall pick up from the last year for which McGrath carried out calculations - 1976 - and work forward to the year 2000.
Real income growth rates (percentage per annum)

1981: 5.1
1982: -1.2
1983: -3.7
1990 - 2000: low 2.50
medium 4.25
high 6.00

Summary

1976 - 1980: 3.13
1981 - 1985: 1.67
1985 - 1990: 3.58
1976 - 2000: low 2.67
medium 3.37
high 4.06

Population growth rates

Total population

1980: 28 692 000 (J.A. Grobbelaar, Projections and analysis of the South African population for the period 1980-2015, Unit for Futures Research, Stellenbosch)
1990: 36 161 000
2000: 44 863 000
Growth rates (percentage per annum)
1970 - 1980: 2.64
1980 - 1990: 2.38
1990 - 2000: 2.18
1976 - 2000: 2.35

The rate of decline in the population growth rate may be a bit more rapid than this if black fertility drops faster than Grobbelaar has projected for the eighties and nineties. Reasonable alternative rates would be 2.28% p.a. 1980-1990 and 1.98% p.a. 1990-2000 in which case the 1976-2000 average would be 2.23% p.a.

A table of outcomes can then be compiled for the total growth in real per capita income over the quarter century 1976-2000:

<table>
<thead>
<tr>
<th></th>
<th>Low economic growth</th>
<th>Medium economic growth</th>
<th>High economic growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>High population growth</td>
<td>8</td>
<td>28</td>
<td>51</td>
</tr>
<tr>
<td>Low population growth</td>
<td>11</td>
<td>32</td>
<td>56</td>
</tr>
</tbody>
</table>

This table should impress on us that if we are thinking in terms of redistribution with growth, the growth margin is not likely to be great (of the order of 30% over 25 years or just over 1% p.a.) and if things turn out badly the margin could be come very slender indeed. We could, on the other hand, get lucky as the high projections show, but it would be unwise to count on it.
Now McGrath places racially allocable expenditure per capita in 1975/76 at R187 for Whites, R74 for Coloureds, R82 for Asians and R22 for Blacks. (McGrath : Table 12) implying an average expenditure (using S.A. Statistics population weights for 1975) of R56. These figures are in 1970 prices.

Assume the following:

1) a low growth in real per capita incomes of 9% between 1976 and 2000, a medium growth of 30% and a high growth of 53% (derived from the table above)

2) a low welfare expenditure situation where public expenditure is 22½% of personal income and racially allocable expenditure is 42½% of public expenditure, a medium situation where the respective percentages are 27½% and 45% and a high one where the figures are 32½% and 51½%. The 1975/76 figures were 25% and 45% respectively.

Then a two-way table of per capita welfare (in the broad sense) expenditure - all races - can be calculated.

<table>
<thead>
<tr>
<th>Per capita welfare expenditure 2000 - all races (1970 prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Slow growth</td>
</tr>
<tr>
<td>Medium growth</td>
</tr>
<tr>
<td>High growth</td>
</tr>
</tbody>
</table>
In the case of the small welfare budget and slow growth, real average per capita expenditure would actually be lower on average in 2000 than it was in 1975/76. Whatever the growth outcome, the average would be lower than the 1975/76 levels of per capita expenditure enjoyed by Asians. In the case of the medium welfare budget and the medium growth projection the per capita expenditure in the year 2000 would be the same as received by Coloureds and Asians in 1975/76. If the equalisation of per capita expenditure were achieved by 2000, in other words, everyone could enjoy the same level of services as Coloureds and Asians had enjoyed a quarter of a century earlier, given the realisation of the most probable projections. Even in the high-high case, equalisation would mean standards dropping 28% for Whites, though rising for everyone else.

Of course, the application of equal standards and norms does not necessarily mean equalising per capita welfare expenditure across racial groups but these calculations, crude as they are, indicate the magnitude of the problems involved. They show that it is possible for the state to provide without specific charge only a very basic level of social services. This has been appreciated clearly enough and the system is designed in principle so that individuals who want to buy more of these services and who can pay for them will be able to do so. If it is required, for instance, that public expenditure for white pupils drop, then those white parents that want to can make up for the drop by
purchasing more educational services. This releases resources which can be channelled into improving conditions for other racial groups. But there will be competing demands, some from people richer than those from whom resources are being transferred; the table above, however, suggests the consequences of not channeling funds to poorer racial groups will be rather serious. Of course, this is precisely the terrain for political struggle and the new constitution provides some (but not all) of the institutions within which it can be waged.

VI

Let us recapitulate the argument. Leaving aside the manifold and great difficulties with other aspects of the new constitution, the fiscal provisions provide for the evolution of a dispensation which could claim legitimacy on two grounds:

- rational, insofar as the goal of colour blind welfare expenditure norms and standards can be agreed upon such that the situation of the poorest members of South African society comes thereby to be significantly improved. The rate of progress towards this goal will depend on the outcome of a series of political contests.

- traditional in the Burkean crescive sense i.e. that, as the fiscal institutions work to produce acceptable outcomes year after year, they gradually come to be seen as the appropriate way of doing things.
These institutions, too, can be expected not to continually raise issues over which sharp dissensus is likely, in contrast to a process which requires discussion of racial shares of state revenue and expenditure.

Insofar as rational legitimation is aimed at there will be a tendency to redistribute state welfare expenditure towards the poorer population groups. This tendency will be reinforced on the whole by the growth of working class political power.

When one looks at likely economic and population growth rates to the year 2000, however, one finds that these tendencies will be operating within probably modest and possibly very slender margins of growth. Per capita state welfare expenditures on Whites will have to drop and those on Coloureds and Indians may do little more than remain static. This will make political struggle on fiscal issues intense, to the point where achievement of the fundamental legitimating goal could be prejudiced.

Is there any supporting evidence for this interpretation?

Appendix 1 contains the text of an article which appeared in the Cape Times on 10 November 1983 under the heading 'Constitutional development likely to increase public spending - Dr Simon Brand.' The whole article makes interesting reading; of particular interest are:
- Brand's view that 'although the nature and direction of further constitutional developments for blacks are not yet clear, what does look clear is that demands for more rapid progress towards reducing differences in the levels of provisions of such services between blacks and the rest of the population are going to become increasingly difficult to resist.'
- The clear indication that Pretoria has been doing the sort of calculations carried out in section V, but in much more detail on a sectoral basis and coming to the same general conclusion: 'If the State wishes to come closer to a situation of comparability between the levels of provision for the different population groups, it is going to have to reduce the level of its commitment in respect of whites to one that it can afford to extend to the other population groups over a reasonable period of time.'
- Brand's obeisance to the free market goal of restricting the share of the public sector in the economy. (He was speaking to the Manpower and Management Foundation.) Given the calculations of section V it seems hardly possible that the share can be reduced below its present level; and the worse the actual growth performance the greater will be the upward pressure on it. One can also discern a delightful emerging possible irony in relation to free market ideology: people espouse it because they think they will do better out of it. Yet one can imagine the state manipulating it to persuade whites to buy more of their social services in
the marketplace while cutting back public expenditure on them and so cutting their real incomes instead. That would be a case of the cunning of history.

Nothing is guaranteed except that from the point of view of poverty elimination the policies of the remaining years to 2000 will not be optimal. It is possible, however, that the way is open to making substantial progress. We shall be living in interesting times.

C.E. W. Simkins
Cape Town
24 November 1983
NOTES


3. Block, p.5.


5. Block, p.10.


7. Block, p.23.


10. Mercabank, No. 30, introduction.


15. Terreblanche, p.221

16. Terreblanche, p.222


20. McGrath, p.20

21. H.L. Wilensky, The welfare state and equality, University of California Press, 1975, pp.65-68. Wilensky's basic hypothesis is that 'large, strongly organised working class organisations ... foster pro-welfare state ideologies and big spending' and 'Participatory democracy in the administration of welfare schemes further enhances the influence of a strongly-organised working class'.
Constitutional development likely to increase public spending

Dr. Simon Brand

The state's involvement for services can't be reduced by limiting the public sector's share of the total expenditure. This is because of the inevitable outcome of government expenditure in the gross domestic expenditure which is expected to continue at the same rate. This is also due to the increased expenditure on education alone.

As spending on education is likely to be reduced in the foreseeable future, the inevitable outcome would be that the size of the public sector in the gross domestic expenditure would rise, and this was contrary to the public sector in the economy. This is because the services of the public sector have been compromised by the increase in the levels of expenditure on education alone.

The more successful approach is in finding additional sources from which the public sector can finance these services. The state has assumed that financial aid would not be available, and that expenditure on other services would have to be cut back severely to accommodate the increased expenditure on education. However, the government has not given any assurance that the expenditure on other services will not rise.

Dr. Brand said that in the case of education, cutting back on other services would only be possible if the larger share of the public sector in total spending must be avoided.

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