University of New England

School of Economics

The Decline of the South African Economy: Review Note

by

Brian Dollery

No. 2003-6

Working Paper Series in Economics

ISSN 1442 2980

http://www.une.edu.au/febl/EconStud/wps.htm

 ISBN 1 86389 845 X

The Decline of the South African Economy: Review Note

Brian Dollery[**]

Abstract

Ongoing political stability in South Africa appears contingent on a sustained and high level of per capita economic growth for the foreseeable future. The dismal growth performance of the South African economy since 1975 is thus cause for grave concern. For this reason the publication of The Decline of the South African Economy, edited by Stuart Jones (2002), represents an important and timely contribution to the debate over the causes of the poor rate of economic growth achieved in South Africa. This review note seeks to examine the arguments presented in this volume and set out an alternative explanation for low growth based on government failure in general and bureaucratic failure in particular.

Key Words: Economic growth; economic policy; South African economy

[**] The author is Professor, School of Economics, University of New England, Armidale NSW, Australia, and Hobart Houghton Visiting Research Fellow in the Department of Economics and Economic History at Rhodes University. The author would like to acknowledge the financial assistance afforded by the Hobart Houghton Research Fellowship. Contact information: School of Economics, University of New England, Armidale, NSW 2351, Australia. Email: bdollery@pobox.une.edu.au.

1. INTRODUCTION

Robust and sustainable levels of economic growth are important for all societies and critical for developing countries afflicted by poverty. But the question of rapid economic growth is especially acute in transforming economies where alienated and disaffected sectors of society must enjoy at least some of the economic fruits of political change in order to develop an allegiance to the new institutions of governance. In the particular case of South Africa the need for progressively rising standards of living contingent upon long-term economic growth can hardly be disputed. Indeed, it is surely no exaggeration to claim that rising per capita real incomes remain the key to democratic consolidation and political stability in South Africa for the foreseeable future. The poor growth performance of the South African economy over the past three decades is thus cause for grave concern: It is therefore sobering to reflect that '…in real terms per capita GDP in 2000 was lower than it was in 1970' (Stuart Jones, 2002, p.1).

Successful policy formulation and implementation to remedy the disastrous economic growth record of the South African economy depends critically on understanding the reasons for faltering rates of economic growth in the post-1970 period. Sound diagnosis is clearly necessary for accurate prognosis and subsequent appropriate policy intervention. For this reason, the new volume entitled *The Decline of the South African Economy*, edited by Professor Stuart Jones (2002) of the University of South Africa, is an especially welcome addition to the literature on the analysis of the growth performance of the South African economy. The book adopts a predominantly sectoral approach to the problem of 'economic failure' in South Africa and thus represents an intellectually coherent and accessible method of tackling the issues involved. After useful synoptic reviews of economic events and macroeconomic policy making over the period 1970 to 2000, successive substantive chapters examine agriculture, mining, manufacturing, transport, banking and finance, external trade and the balance of payments. Each chapter is written by an acknowledged authority on the topic, with contributors representing a literal 'who's who' of South African economics, including *inter alia* Trevor Bell, Stuart Jones, Trevor Jones, Gavin Maasdorp, Philip Mohr, Peet Strydom and Nick Vink. The present review note seeks to evaluate the contribution made by *The Decline of the South African Economy* to our understanding of the causes of the distressing growth performance of the South African Economy over the period 1970 to 2000 and present an alternative view of the problem by examining the question of state incapacity and government failure over the same time frame.

The review note itself is divided into four main sections. Section 2 provides a synoptic overview of economic growth in South Africa in the post-World War Two epoch. Section 3 is devoted to an examination of the main arguments advanced in the substantive chapters in *The Decline of the South African Economy*. Section 4 sets out an alternative explanation for the 'economic failure' of the South African economy that focuses on the related phenomena of government failure and state incapacity. The review note ends with some brief concluding comments in section 5.

2. ECONOMIC GROWTH IN SOUTH AFRICA BETWEEN 1946 AND 2000

The South African economy enjoyed vigorous rates of economic growth from 1946 to 1974 with rising per capita incomes and growing aggregate employment in the formal sector. However, from 1975 onwards, net population growth exceeded economic growth, with the inevitable result that income per head of population fell. Some idea of the growth performance of the South African economy between 1946 and 2000 can be gathered from Table 1:

Table 1: Economic Growth Rates in South Africa from 1946 to 2000

Time period	Mean annual growth rates (%)
1946-1950	4.2
1951-1960	4.5
1961-1970	5.7
1971-1980	3.4
1981-1990	1.6
1991-2000	1.7

Source: Adapted from Maasdorp (2002, p.9, Table 2.1).
Note: Percentage growth rates are based on GDP at market prices in constant 1975 rands.

Table 1 demonstrates in graphic terms the stark decline in economic growth from the 1970s onwards. Needless to add, the aggregated growth rates presented in Table 1 mask the sectoral dimensions of the problem, with the manufacturing sector acting as a major laggard in the growth process (Bell, 2002). Moreover, Table 1 reveals nothing about per capita growth rates. Notwithstanding regular censes, accurate official estimates of the South African population do not exist, a point emphasized by Stuart Jones (2002, p. 5) in *The Decline of the South African Economy*. South Africa has experienced a wave of illegal immigration over at least the last decade believed to number in millions of people and the past several census counts are likely to drastically understate the rate of population growth. In addition, although political turmoil and economic collapse in neighbouring countries undoubtedly accounts for a high proportion of the flood of migrants into South Africa, illegal immigration is almost certainly an endogenous component of economic growth in South Africa. Thus, migrant flows through South Africa's long and porous borders probably depend on the rate of economic growth in South Africa itself. Accordingly, success in boosting aggregate economic growth rates mitigates against rising per capita living standards, compounding the difficulties involved in policy making. A third factor neglected by the global data presented in Table 1 resides in unemployment, surely the most politically sensitive barometer of economic welfare. The labour absorption capacity of the South African economy appears to have declined steadily since 1970 (Maasdorp, 2002): Given rates of economic growth thus generate successively lower rates of formal sector employment exacerbating the need for sustained and rapid economic growth, not only to reduce existing unemployment, but also to provide additional employment for millions of new jobseekers deriving from the relatively youthful median age structure of the South African population. In sum, the critical importance of much higher economic growth can surely not be exaggerated.

The data in Table 1 also raises the thorny problem of the periodisation of South African economic history. *The Decline of the South African Economy* explicitly selects the period 1970 to 2000. The justification offered for choosing this time period rests on the fact that South African gold output peaked in physical terms in 1970. Editor Stuart Jones (2002, p.4) has set out the argument as follows: 'Although the value of gold output increased with the rise in price, giving the appearance of prosperity, the long-term decline had begun, which has diminished South Africa's role in the international economy'. Although the periodisation of any history almost inevitably involves a degree of arbitrariness, and thus invokes an element of pragmatism that should arouse at least some sympathy in the reader, the choice of the period 1970 to 2000 appears open to question on several counts. For instance, as almost all of the contributors to *The Decline of the South African Economy*, including Stuart Jones, make clear, the demise of economic growth in South Africa seems to have begun in earnest around 1975 and was further depressed following the political unrest of 1976. It would thus appear logical to have confined the analysis to the period 1975 to 2000, which would still have retained the advantage of a significant time frame amenable to long-term investigation. With the base period anchored on a lower rate of economic growth, this would have *inter alia* reduced the statistical decline of South African economic growth, and thus rendered the data in Table 1 somewhat less disturbing.

3. WHY SOUTH AFRICAN ECONOMIC GROWTH FELL FROM 1975 ONWARDS

As we indicated earlier, the sectoral focus of *The Decline of the South African Economy* obliged most contributors to try to explain the poor post-1975 economic growth performance from the standpoint of their own particular arena of economic activity. This not only presented a sharp challenge to the authors of the different chapters, but also provides the reader with insightful synopses of economic events, sector by sector. We will examine the most important arguments presented in each of the substantive chapters in turn.

Historical Background

In Chapter 2, Gavin Maasdorp provides an excellent survey of the South African economy over the period 1970 to 2000. He notes that despite the success of the economy in the 1950s and 1960s in growth terms, ominous underlying trends were already evident by 1970: '…[A] race-based economy (highly regulated with state socialism to advance the interests of Afrikaners) was causing structural problems (including a lack of skills), the opportunity costs of social engineeringto separate the races were high, and there was seething black resentment' (Maasdorp, 2002, p.7). Maasdorp identifies three major reasons for the collapse of economic growth after 1975. In the first place, 'structural problems' limited the potential for economic growth. Thus, longstanding trade protection to foster import substitution hampered exports, foreign exchange controls misallocated scarce capital resources, and concerns over the availability of strategic materials led to further resource misallocation. The Bantustan policy absorbed ever-increasing magnitudes of public funds, both in the form of wasteful infrastructure development and incentives for industry to relocate to homelands. Moreover, changes to labour legislation that should have liberalised labour markets instead ' …extended conventional collective bargaining and other rights to unskilled workers, thus exacerbating distortions' (p.12) by enabling radical black trade unions to artificially inflate wage rates in key sectors of the economy.

Secondly, domestic and international political pressures surrounding apartheid gained momentum and forced the National Party government to react in two main ways. Under a the doctrine of the 'total onslaught', the South African government drastically expanded the defence capabilities of the security services, developed an armaments industry, engaged in military activities in Angola, Mozambique, Namibia and Zimbabwe, stockpiled strategic reserves, and essentially 'militarised' South African society, all at great cost. Simultaneously, various 'mild' political reforms were introduced, involving a relaxation of some restrictions associated with 'petty' apartheid and the introduction of the Tricameral Parliament in 1983. However, these reforms almost entirely failed to placate the disenfranchised black majority and the resultant social stresses were exploited by trade unions and the liberation movements in a successful campaign to make the urban black areas of South Africa 'ungovernable'.

Thirdly, international reaction to apartheid and the South African authorities draconian attempts to quell unrest in the townships resulted in the imposition of trade and investment sanctions. The latter form of economic boycott appears to have been especially successful, culminating in the 'debt standstill' of August 1985: South Africa became a net exporter of capital and was obliged to adhere to a strict debt repayment schedule. Trade sanctions, whilst much less efficacious, still meant that South Africa incurred additional costs and lost export markets, many of which were never recovered.

Maasdorp (2002) argues that the new non-racial government elected in 1994 should have emphasized economic liberalisation as its top economic priority. The subsequent failure of the RDP policy and GEAR macroeconomic strategy to substantially boost economic growth can be traced to three central factors: foreign companies that had previously disinvested in the South African economy were loathe to come back – a direct long-term cost of the sanctions campaign; a crime wave increased skilled emigration, depressed tourism and discouraged foreign investment; and new employment legislation further distorted the labour market and raised real wages above equilibrium levels. Moreover, despite the soundness of the GEAR policy formulation and implementation, microeconomic reform, and especially privatization, stalled in the face of trade union opposition.

Macroeconomic Policy
Chapter 3 examines the efficacy of monetary and fiscal policies in terms of their impact on economic growth and price stability: Strydom is thus concerned with only two policy instruments and two policy objectives, although he does consider the employment implications of macroeconomic policy. The analysis in Chapter 3 focuses primarily on the evolution of macroeconomic policy and its effects on economic growth and inflation. Thus Strydom traces the development of monetary policy over the period 1970 to 2000 and emphasizes the shift from direct controls (prior to the De Kock Commission in 1985) and the later reliance on market-orientated measures. He argues that this evolution has enabled policy makers to effectively target inflation and provide a solid foundation for the achievement of price stability.

However, Strydom is much less sanguine about fiscal policy. He contends that fiscal policy was generally expansive during the 1970s and 1980s, in large part due to the costs of apartheid and infrastructure development. Under the new political dispensation, the emphasis has fallen on macroeconomic stabilization and income redistribution rather than growth *per se*: After 1994 '…fiscal policy started to develop its own target framework', with stress on 'budget deficits, the tax burden, the public sector saving ratio and the public debt ratio" (Strydom, 2002, p.48). Thus from the perspective of economic growth, fiscal policy has become 'ineffective' in promoting rapid growth. Moreover, it has failed to stimulate physical infrastructure development, been unable to foster adequate human capital formation, and stalled privatization attempts.

Agriculture
The sectoral analysis proper of the South African economy begins in Chapter 4 with an incisive analysis of agriculture by Nick Vink and Stefan Schirmer. The essence of the argument in this chapter may be summarized as follows: In 1970, South African agriculture was tightly controlled and white farmers heavily subsidized, '…in which both natural and fiscal resources were wasted' (Vink and Schirmer, 2002, p.63). During the 1980s, controls were gradually relaxed, and subsidies and other financial underpinnings slowly reduced, exacerbating a nascent trend towards increasing market concentration and capital intensity at the expense of both small black and white farmers. Post-1990 policy focused on deregulation as a means of rejuvenating agriculture and relieving the plight of remaining small producers. However, 'by the year 2000, a radically new farming sector, dominated by small-scale, labour-intensive farmers of all races, had not yet materialized" (p.63). Moreover, over the entire period 1970 to 2000, the agricultural sector continued to shed unskilled labour, significantly swelling the numbers of poor and destitute people migrating into the urban areas.

Mining
Chapter 5 examines the role of mining in the South African economy from 1970 to 2000. The Chapter itself is formally divided into two main parts: Section I, written by Stuart Jones, investigates the South African mining industry over the period 1970 to 1990, whereas section II, jointly authored by Stuart Jones and Roger Baxter, looks at the rapid transformation in the 1990s. In broad terms, the writers pursue the theme that 'in the last three decades of the twentieth the mining industry's contribution to the South African

economy fluctuated dramatically', with a steady downward trend, so that 'by 2000 mining's proportion of GDP was at its lowest level since the formation of Union in 1910' (Stuart Jones, 2002, p.68): A fall from around 9 percent of GDP in 1970 to about 6.5 percent in 2000. Set against this trend, several boom periods occurred in various minerals, notably gold in the 1970s, coal in the 1980s, and platinum in the 1990s. In common with agriculture, perhaps the most significant economic aspect of mining from 1970 to 2000 has been the drastic reduction in employment over this period: Literally hundreds of thousands of jobs have been lost. Nevertheless, mining retains its position as the predominant source of foreign exchange for the South African economy, accounting for some 41 per cent of total exports by value in 1999.

Manufacturing

In Chapter 6, Trevor Bell and Nkosi Madula examine the South African manufacturing industry for the period in question. The authors specifically attempt to explain why 'since the early 1970s, South Africa's manufacturing growth performance has deteriorated greatly, and has been especially poor since the early 1980s' (Bell and Madula, 2002, p.99). Various explanations are canvassed: The commodity price boom of the 1970s and its affect on relative prices; the domestic policy shift to export orientation in the 1980s and 1990s; balance of payments constraints on growth; inadequate skills; a global secular decline in the relative price of manufactures; and skills-biased technological change. All of these influences seem to explain, at least in part, the decline of South African manufacturing, and the authors present impressive arguments around their comparative plausibility. However, given the recent success of manufactured exports in some sectors, perhaps most notably in the automotive industry, their pessimism on the future of the export of manufactures may be unfounded. Moreover, it is also interesting that little emphasis is placed on trade union militancy and labour market rigidities in their account, in contrast to most other chapter contributors.

Freight Transportation

Chapter 7 focuses on the freight transport sector of the South African economy. Trevor Jones sets the scene by observing that although the transport sector served the national economy well in many respects, with first-class highway systems and state-of-the-art bulk-handling ports, it was nonetheless racially skewed in favour of whites, with poor black people often excluded or badly connected to the modern transport network. The analysis conducted by the author deals with three important dimensions of the transport sector: ports and maritime transport; rail transport; and road transport and 'intermodal competition'. In the realm of harbours and shipping, it is argued that the 1970s witnessed the construction of world-class bulk ports, particularly Richards Bay and Saldana, with excellent rail links that were consolidated in the 1980s. At the same time, scant attention was paid to general cargo facilities. Thus, by the 1990s, 'world-beating bulk ports and mediocre general cargo facilities were seriously at odds with the development orientation of the "new" South African economy that was attempting to re-enter the mainstream of an increasingly globalized international trading community' (Trevor Jones, 2002, p.144). Rail transportation follows a similar pattern: Rapid expansion in the 1970s, consolidation in the 1980s, and subsequent decline in the 1990s, due in part to *dirigiste* pricing policies, and much the same 'asymmetry as ports, with strength in bulk operations and weakness in general freight' (p.161). Regulatory problems afflicting rail have had a direct and major impact on road transportation. In 1970 heavy road haulage was virtually non-existent: Thanks to inept regulation, by 2000 road transport was the dominant land mode in both weight and value terms. A gradual relaxation of regulation from 1970 to 2000 thus saw rail eclipsed in the South African transport system, despite massive negative externalities attendant upon trucking.

Finance and Banking

Chapter 8, written by Stuart Jones, concentrates on the financial sector over the period 1970 to 2000. Jones argues the thesis that during this time period the South African banking sector underwent fundamental changes, especially during the 1990s, 'when both the functions and ownership of traditional institutions were transformed', where 'market forces were the driving force behind these changes [and] technology the instrument that made them possible and determined their timing' (p.165). The Chapter examines the structural evolution of the financial sector by focusing on its major components, including commercial banks, merchant banks, building societies, hire purchase banks, life insurance, the Johannesburg stock exchange, life assurance companies, unit trusts, capital markets and derivatives. A particularly interesting aspect of the Chapter revolves around how regulatory changes affected the South African financial system, with an increasing emphasis on markets rather than direct controls.

External Trade

External trade is examined in Chapter 9 by Stuart Jones. A salient characteristic of South African trade over the past thirty years is the fact that it has declined as a proportion of GDP from around 42 percent in 1970 to some 39 per cent in 1999. At the same time the geographic distribution of foreign trade has broadened considerably, with an increasing share going to Asian countries. The structure of imports appears to have remained largely unchanged between 1970 and 2000. Minerals still dominate South African exports, but exports of manufactured metal products, plastics and rubber, chemicals, jewellery, electrical equipment, and paper and pulp products have grown rapidly. After reviewing the evidence, Stuart Jones (2002, p.212) concludes that between 1970 and 2000 'the external trade of South Africa ceased to be a cause of growth and trade as a proportion of GDP was lower in 1999 than in 1970'. In essence, he contends that this outcome arose because 'government policies encouraging import substitution counterbalanced those supporting export promotion' (p.213). Thus, 'the market, global and domestic, was the engine of growth, not Pretoria bureaucrats' (p.213).

Balance of Payments

Chapter 10, the final substantive chapter in *The Decline of the South African Economy,* focuses on the balance of payments over the period under review. In common with many other developing economies, South Africa typically runs a deficit in the current account of its balance of payments that has historically been financed by net inflows of foreign capital. However, after 1976, and except for the early 1980s, South Africa was obliged to run balance of payments surpluses until 1994, when net foreign capital inflows resumed.

However, Mohr demonstrates that these inflows were erratic, consisting primarily of short-term borrowing rather than long-term investment. Moreover, despite a successive relaxation of direct controls over the convertibility of the rand, South African macroeconomic policy makers still face balance of payments constraints.

It is thus evident that *The Decline of the South African Economy* offers rich pickings to professional economists and the lay public alike. Indeed, given the critical importance of economic growth to the fledgling democracy in South Africa, it is an extremely timely contribution to the debate on policy making in the new millenium. However, *The Decline of the South African Economy* is not without blemish.

In the first place, the approaches adopted by the various contributors seem to fall rather asymmetrically into two broad camps. Thus, some chapters focus exclusively on trying to explain why particular sectors changed through time, most notably Bell and Madula on the manufacturing sector, whereas other authors seek to document the relative performance of their specific sector in the overall context of the growth of the South African economy in the 1970/2000 period, like Stuart Jones and Roger Baxter on mining. Although both the 'why' and 'how' approaches are apposite and interesting, their simultaneous use in the same text by different authors is a little perplexing. Secondly, the selection of sectors and the ordering of chapters are not entirely self-explanatory. For instance, it seems puzzling that a no chapter was devoted to the public sector: After all, this sector accounts for almost a third of economic activity in South Africa and plays a pivotal role in economic development and economic growth. This observation will be taken up in detail in section 4. Similarly, it appears more logical to gather together the chapters explicitly devoted to policy questions, such as chapters 2, 3, 9 and 10, separately from chapters focused on actual sectors, like chapters 4, 5, 6, 7 and 8. Finally, it would have been helpful to have references presented alphabetically at the end of the volume in a uniform format, rather than individually at the end of each chapter in different referencing styles.

4. GOVERNMENT FAILURE AND STATE INCAPACITY

A number of contributors to *The Decline of the South African Economy* discuss the problem of policy failure by the South African authorities over the period 1970 to 2000. For example, the misallocation of resources arising from 'grand apartheid' and the litany of rigidities associated with attempts at racial segregation are raised by several authors. Similarly, in the post-1994 period, inappropriate labour legislation, associated labour market rigidities and their impact on high unemployment are underlined in several chapters, especially by Stuart Jones. Moreover, half-hearted and stalled attempts at privatisation are criticised by some writers. However, apart from Peet Strydom's chapter on macroeconomic policy, these themes are never systematically explored in any depth. This is a pity, since cogent arguments can be brought to bear that South Africa's poor growth performance can be squarely laid at the door of public policy making.

The idea that the South African economy has been hamstrung by ideology and its attendant policy ramifications is neither new nor novel. Indeed, even prior to the onset of legally formalised apartheid, economists and other scholars, perhaps most notably S. H. Frankel (1947), were already bemoaning the efficiency-reducing characteristics of the ‘colour bar’ and its deleterious impact on economic growth. With the introduction of ‘grand apartheid’, the inhibitory effects of segregationist public policy became even more pronounced, and these were analysed and debated vigorously for more than two decades (see, for instance, Lipton (1986)). This debate reached its zenith in Lowenberg and Kaempfer’s (1998) seminal public choice analysis of the origins and demise of South African apartheid.

These ideas represent a South African ‘special case’ of the universal problem of government failure that now boasts a formidable literature (Wallis and Dollery, 1999). Government failure, defined here as the inability of public agencies to achieve their intended aims, is an extremely useful means of explaining the poor economic growth record of the South African economy over the period 1970 to 2000 that could have been employed with good effect in *The Decline of the South African Economy.* Various scholars have attempted to develop taxonomies of government failure. One of the earliest typologies can be traced to the South African economist Michael O’Dowd (1978). He argued that all forms of government failure fell into a generic tripartite classification consisting of ‘inherent impossibilities’, ‘political failures’, and ‘bureaucratic failures’. ‘Inherent impossibilities’ refers to ‘…the cases where a government attempts to do something which simply cannot be done’. Secondly, ‘political failures’ consist of those instances ‘…where although what is attempted is theoretically possible, the political constraints under which government operates make it impossible in practice that they should follow the necessary with the necessary degree of consistency and persistence to achieve their stated aim’. Finally, ‘bureaucratic failures’ cover ‘the cases where although the political heads of government are capable of both forming and persisting with the genuine intention of carrying out a policy, the administrative machinery at their disposal is fundamentally incapable of implementing it in accordance with their intentions’ O’Dowd (1978, p.360).

This taxonomy remains a useful tool with which to conceptualise actual government failure in South Africa over the period 1970 to 2000. For example, attempts in the 1970s and early 1980s to implement grand apartheid surely represent a quintessential instance of inherent impossibility. After all, despite the expenditure of vast sums of public funds and the instigation of draconian enforcement systems, millions of people nevertheless migrated from the various homelands into the then ‘white’ South Africa to thwart the intended aim of grand apartheid. Similarly, extremely repressive efforts to crush township ‘unrest’ in the latter part of the 1980s can be seen as an instance of political failure insofar as domestic and international political held the military power of the National Party administration in check, at least to some degree. Moreover, attempts to install viable puppet governments in the ‘national states’ were hamstrung by inept and corrupt state machinery – an apposite case of bureaucratic failure. It need hardly be added that these examples of government failure came at a massive human and economic cost, with significant opportunity costs in terms of foregone economic growth.

The O'Dowd (1978) typology can also shed considerable light on events since the formal onset of majority rule in 1994. Although a product of political compromise, the South African Constitution itself surely constitutes a salient instance of inherent impossibility, consisting *inter alia* of a long 'wish list' of economically unobtainable 'guarantees' of material welfare for all South Africans that cannot be given substance, despite the best efforts of the Constitutional Court. Political failures abound too in the New South Africa. Belated and half-hearted attempts at microeconomic reform, especially through privatisation, have stalled in the face of determined resistance both within and without the South African government. These forms of government failure continue to impose significant costs in terms of foregone economic growth.

But bureaucratic failure seems to be the golden thread that flows seamlessly through the momentous political changes that have occurred in South Africa over the 1970 to 2000 period dealt with by *The Decline of the South African Economy*. In essence, under both the apartheid regime and its democratic successor, economic and social policy has often been characterised by complex and grandiose schemes that require a sophisticated and efficient state bureaucracy for their effective implementation. Not only has the requisite bureaucratic capacity typically been lacking, but also through time it has been steadily eroded. For instance, during the 1970s and 1980s, a plethora of complicated apartheid regulatory measures relied on an unwieldy bureaucratic apparatus made up of largely 'protected' white labour (Dollery, 1995) and corrupt homeland administrations. Political compromise during the transition from apartheid meant that the new post-apartheid government inherited this cumbersome and inefficient administrative structure. It should thus have come as no surprise that the ambitious and far-reaching RDP policy of the incoming government failed largely on grounds of state incapacity (Simkins, 1996). In both of these cases, core public policy initiatives were not realised, at least in part due to bureaucratic failure. Although the opportunity cost of foregone economic growth would be difficult to quantify with any degree of precision, it would surely have been substantial.

The problem of state incapacity in contemporary South Africa has been examined in both official documents and the scholarly literature (see, for instance, Dollery and Wallis, 1999). In particular, the Ncholo Report (1997) highlighted bureaucratic shortcomings that have severely damaged public service delivery by provincial governments (Ncholo, 1996). However, few concrete measures have been taken to rectify the problem. Indeed, as several authors in *Decline of the South African Economy* point out, current well-intentioned and ongoing affirmative action programs by the South African government have seriously depleted the public sector of experienced expertise, with potentially catastrophic results. There now seems little doubt that the public sector cannot efficiently deliver education, health, and many other critical social services on which poor South Africans are heavily dependent. It would thus seem that whereas the price of affirmative action policies in public administration is paid by the 'poorest of the poor' in South Africa, the benefits accrue to a small and already comparatively affluent black elite – hardly a policy certain to secure political stability over the medium term. Moreover, although whites and other relatively wealthy minorities can (on the whole) afford to purchase education, health, security and other vital services through the market, the poor majority have no choice but to rely on deteriorating public services. In effect, while any equity gains attendant upon affirmative action in the public sector are open to severe criticism, efficiency losses grow by the day.

A significant consequence of the literature on government failure has been to stimulate a creative search for methods of reducing both the extent and magnitude of government failure. Several approaches have been suggested, most of which focus on either matching the role of the state to its capabilities or enhancing the capacity of the state. The *World Bank Development Report* (1997) has emphasised the importance of the 'enabling state' in the process of economic growth in developing countries; key 'minimalist' functions must be adequately performed by government, especially the creation and maintenance of law and order, the provision of basic social services and physical infrastructure, and the establishment of a stable and coherent policy environment. However, where state incapacity exists, 'intermediate functions', such as basic education and welfare services, require a separation between government production and government provision, with service production and delivery handled by private firms and voluntary organisations. Finally, high-level 'activist functions', like the coordination of market activity, should only be undertaken if a sophisticated state machinery exists. Given the growing problem of state incapacity in South Africa, especially within the provincial and local governments, extensive partnerships between governments, markets and civil society seems the rational way to deal with bureaucratic failure.

This 'matching the role of the state to its capabilities' approach can easily complement a longer-run focus on enhancing the capacity of the state. Indeed, in the South African context, much has been done through training and other programs. But ameliorating state incapacity is clearly a medium–term strategy since the development of human capital requires time and the backlog left by apartheid education is substantial.

5. CONCLUDING REMARKS

The Decline of the South African Economy represents a welcome and significant contribution to the debate on economic growth in South Africa. The stellar quality of most of its authors and the important topics they tackle substantially advance our understanding of the poor growth performance of the South African economy over the period 1970 to 2000. However, as this review note has sought to demonstrate, the neglect of the public sector in *The Decline of the South African Economy* is a grave oversight. Quite apart from the significance of the public sector in GDP terms to the South African economy, the phenomenon of government failure can be used to account for the dismal South African growth record over the last three decades of twentieth century. It is not argued here that government failure is either the sole or even most important reason for the low rate of par capita economic growth from 1970 to 2000, but rather that it is a significant factor that comprehensive explanations for poor growth must accommodate. In this respect, *The Decline of the South African Economy* is surely lacking.

REFERENCES

Department of Public Service and Administration (1997), *The Provincial Review Report* [Ncholo Report], CTP Book Publishers, Cape Town.

Dollery, B. E. (1995), 'Government Failure as an Explanation for the Asymmetric Effects of Labour Apartheid in South Africa', *Southern African Journal of Economic History*, Vol. 10(1), 1-18.

Dollery, B. E. and Wallis, J. L. (1999), 'Administrative Constraints on Policymaking in the New South Africa: Government Failure and the Ncholo Report', *Politics, Administration and Change*, No. 32, 14-35.

Frankel, S. H. (1947), 'Whither South Africa?: An Economic Approach', *South African Journal of Economics*, Vol. 15(1), pp. 27-39.

Jones, S. (2002) (ed.), *The Decline of the South African Economy*, Edward Elgar, Cheltenham.

Lipton, M. (1986), *Capitalism and Apartheid*, David Philip, Cape Town.

Lowenberg, A. D. and Kaempfer, W. D. (1998), *The Origins and Demise of South African Apartheid: A Public Choice Approach,* University of Wiscosin Press, Chicago.

Ncholo, M. P. (1996), 'Right Sizing the Public Service: The Official View', *Journal of Public Administration,* Vol. 31(4), pp. 221-229.

O'Dowd, M. (1978), 'The Problem of "Government Failure" in Mixed Economies', *South African Journal of Economics*, Vol. 46(4), pp.360-370.

Simkins, C. E. (1996), 'The New South Africa: Problems of Reconstruction', *Journal of Democracy,* Vol. 7(1), pp. 82-95.

Wallis, J. L. and Dollery, B. E. (1999), *Market Failure, Government Failure, Leadership and Public Policy*, Macmillan, London.

World Bank Development Report. (1997), *The State in a Changing World*, Oxford University Press, Oxford.