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by

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1. INTRODUCTION

In their editorial introduction to the 1994 *Special Issue* of the *South African Journal of Economic History* devoted to a sectoral analysis of the South African economy during the the 1980s, Stuart Jones and Jon Inggs described this period as a "lost decade", with per capita incomes even lower in 1990 than they had been in 1980.[1] Moreover, "no other Western country experienced a comparable decline in the 1980s and South Africa herself had never experienced anything like it since the formation of Union in 1910".[2] Thus, from the perspective of economic growth, the decade of the nineties could not have had a less auspicious beginning.

However, the bleak prognosis for the South African economy in the 1990s was to be shattered by dramatic political events that were to drastically change the South African landscape forever. Following various informal meetings abroad between the South African state and its opponents, increasing international isolation, growing unrest in the townships, and rising domestic pressure from organized business, the South African government under its new President de Klerk released

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[1] Stuart Jones & J. Inggs, "An overview of the South African Economy in the 1980s", *South African Journal of Economic History*, 9(2), 1994, p.3.

[2] *Ibid*, p.4.

Nelson Mandela and legalized the African National Congress (ANC) and other liberation movements in 1990. This led inexorably to the introduction of an interim constitution and finally culminated in the democratic election of a non-racial "Government of National Unity" (GNU) in 1994.

From the perspective of historical periodisation, it seems possible to divide the decade of the nineties into two discrete and roughly equally long time periods. In the first place, the period 1990 to the 1994 election saw protracted negotiations and political jockeying between the major forces in the South African political milieu. Although economic considerations were inevitably eclipsed by the struggle for political power during this time, the major players nevertheless sought to stake claims to the future course of economic policy formulation and implementation in South Africa. For instance, "during the five years from 1990 to 1994 the corporate sector anxiously participated in various scenario-building exercises aimed at formulating an economic strategy that would be business-friendly", including the publication of the free market-orientated *Economic Options for South Africa* in 1993.[3] Similarly, in 1993 the National Party published its economic manifesto in the form of *The Restructuring of the South African Economy: Normative Economic Model* that advocated a smaller public sector and a "redistribution through growth" approach to poverty alleviation.[4] In much the same vein, the ANC/South African Communist Party alliance delivered its own *dirigiste* policy views in its 1994 *Reconstruction and Redistribution Program* (RDP), which proposed an

[3] S. J. Terreblanche, *A history of inequality in South Africa, 1652-2002*, Pietermaritzburg, 2002, p.80.
[4] Central Economic Advisory Council, *The restructuring of the South African economy: Normative economic model,* Pretoria, 1993.

interventionist "growth through redistribution" method of dealing with racial differences in income and wealth[5].

The second phase of the 1990s began with the election of the ANC-dominated GNU in 1994. In contrast to the policy paralysis and economic "shadow boxing" that had chararacterised the earlier negotiating period, the post-1994 phase witnessed the beginning of policy formulation and implementation in earnest. Moreover, as policy failures accumulated and earlier, overly optimistic economic growth forecasts evaporated, the end of the 1990s saw a new and much more pessimistic approach to economic policy making take root in South Africa.

The present paper seeks to examine the role of the public sector in the South African economy during the 1990s. In particular, we attempt to chart the course of events in the public sector and explain their impact on aggregate economic growth in South Africa for the period in question. It will be argued that government failure in general, and the phenomenon of state incapacity in particular, has had far-reaching and damaging effects on the South African economy.

The paper itself is divided into four main parts. Section 2 considers various statistical trends in South African public finances, public employment and economic growth by way of empirical background to the remainder of the paper. Section 3 examines the evolution of economic policy making in the 1990s and the concomitant role played by the public sector in the microeconomic policy failures of the South African government, most notably the collapse of the Reconstruction and Development Program (RDP). Section 4 focuses on the state incapacity

[5] African National Congress, *Reconstruction and redistribution program,* Johannesburg, 1994.

dimension of government failure in South Africa. The paper ends with some brief concluding remarks in Section 5.

2. STATISTICAL BACKGROUND

The foundations of the economic growth performance of the South African economy over the past thirty years have been exhaustively analysed in Stuart Jones' seminal text *The Decline of the South African Economy*.[6] In this volume, Gavin Maasdorp provides a useful statistical summary of post-World War Two rates of economic growth in South Africa that has been adapted and reproduced in Table 1.[7] It is immediately apparent that the South African economy experienced remarkable rates of economic growth over the period 1946 to 1974. Not surprisingly, this excellent growth performance was accompanied by growing per capita incomes and rising total employment in the formal sector of the economy. Nevertheless, from around the mid-1970s, population growth rates began to overtake economic growth rates, and per capita income consequently began to fall. Commenting on the long-run implications of this collapse of economic growth in South Africa, Stuart Jones has pointed out that "the harsh fact is that in real terms per capita GDP in 2000 was lower than it was in 1970".[8] Indeed, despite a brief period between 1994 and 1998, the process of a long-term secular decline in per capita incomes continued throughout the 1990s.

[6] Stuart Jones (ed.), *The decline of the South African economy,* Cheltenham, 2002.

[7] G. Maasdorp, "Economic survey, 1970-2000", in Stuart Jones (ed.), *The decline of the South African economy,* Cheltenham, 2002, p. 9.

[8] Stuart Jones, "Introduction", in Stuart Jones (ed.), *The decline of the South African economy,* Cheltenham, 2002, p. 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,Table 2.1

While aggregate long-run economic growth data of the kind contained in Table 1 provides virtually no clues as to the role of the public sector in the economic stagnation experienced by the South African economy since the 1970s, it nonetheless suggests that the behavior of the South African public sector over that time period can hardly have been beneficial for sustained levels of economic growth. If we contrast rates of growth in public expenditure over the long term with economic growth, then a more illuminating picture emerges.

Table 2 contains a summary of this information for the four post-1960 decades.

TABLE 2
Rates of government expenditure growth and economic growth from 1960 to 2000

Time period	Mean growth rates per decade Government expenditure	Economic growth
1960-69	7.2%	4.5%
1970-79	3.9%	3.4%
1980-89	2.0%	1.6%
1990-99	0.7%	1.7%

Source: Adapted from Maasdorp,Table 2.1 and Black et al, Table 7.1[9]

[9] P. A. Black., E. Calitz, and T. Steenekamp. *Public economics for South African students*, Oxford University Press, 2003.

A brief perusal of Table 2 indicates that government expenditure and economic growth fell roughly in tandem over the forty year period in question, except for the decade of the 1990s, where public expenditure growth was consistently lower than economic growth for the first time.

TABLE 3

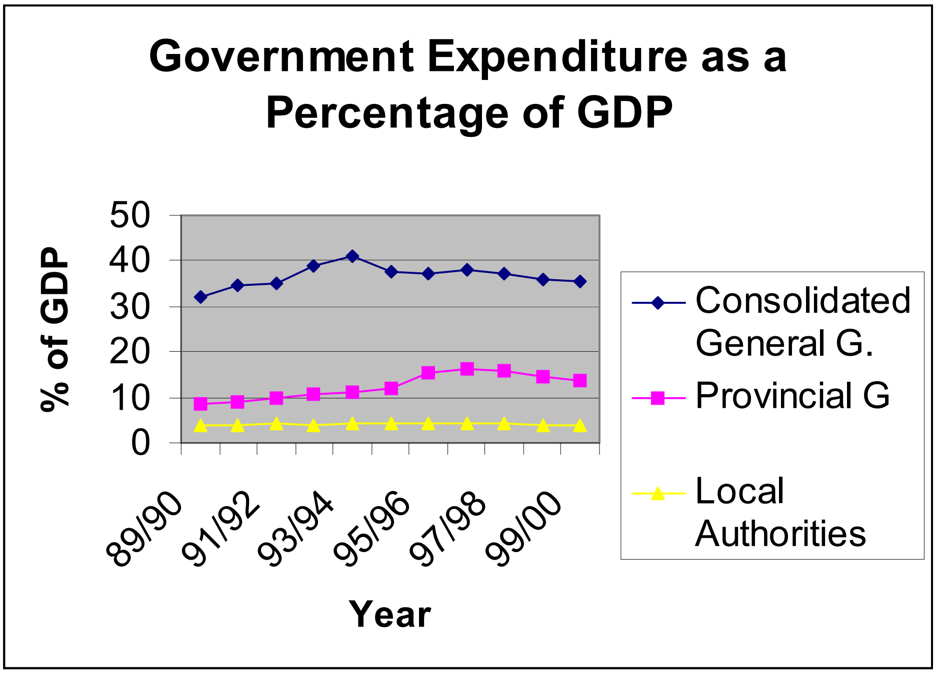
Expenditure by consolidated General Government, Provincial Government and Local Authorities as a percentage of GDP 1989/90 – 1999/00

Year	Consolidated General G.	Provincial G	Local Authorities
89/90	32	8.7	4
90/91	34.7	9	4
91/92	34.9	10	4.2
92/93	38.8	10.7	3.9
93/94	40.9	11.2	4.2
94/95	37.5	12	4.1
95/96	37	15.3	4.3
96/97	38.1	16.4	4.46
97/98	37.1	15.7	4.16
98/99	36.1	14.4	3.88
99/00	35.4	13.8	3.88

Source: Department of Finance, *Budget Review* (various issues), Pretoria
95/96 - 99/00 for provincial and local calculated from 1999 *Budget Review*

FIGURE 1

Expenditure by consolidated General Government, Provincial Government and Local Authorities as a percentage of GDP 1989/90 – 1999/00



Source: Department of Finance, *Budget Review* (various issues), Pretoria
95/96 - 99/00 for provincial and local calculated from 1999 *Budget Review*

Table 3 and the associated Figure 1 focus specifically on government expenditure during the 1990s and decompose this expenditure between the three levels of governance in the South African system of fiscal federalism. It is clear that the national government easily expended the majority of funds, followed by a growing proportion spent by provincial governments, and a declining share attributable to local government expenditure. Aggregate government expenditure rose until its peak in 1994 fiscal year and thereafter gradually declined.

If the behaviour of South African government expenditure is placed in international context, then four distinct features become evident. Firstly, in comparison with other developing countries, “some indicators, such as the ratio of general government expenditure to GDP, would suggest that government expenditure in South Africa has grown to a relatively high level".[10] In the second place, the shift from capital to current expenditure has been much more pronounced in South Africa than other comparable nations. Thirdly, from the perspective of the functional composition of expenditure, South Africa spends substantially more than its counterparts elsewhere. Finally, welfare expenditure seems to be relatively low in international comparison.

Another way of examining the behaviour of the state in South Africa over the nineties is to scrutinize public sector employment. Table 4 provides details of aggregate employment by government, decomposed into national, provincial, local and parastatal employment for the decade of the 1990s.

TABLE 4

**Employment in the public sector
1990 – 2000**

Year	National	Provincial	Local	Parastatals[2]	Total
1990	527 298	424 663	237 990	120 533	1 310 484
1991	554 463	427 259	232 319	107 457	1 321 498
1992	542 423	448 118	230 616	109 176	1 330 333
1993	530 298	464 006	224 907	105 726	1 324 973
1994	535 460	697 364	240 175	99 707	1 572 706
1995	337 223	761 117	246 801	105 697	1 450 838
1996	359 680	860 837	247 515	114 689	1 582 721
1997	351 398	868 528	254 132	109 797	1 583 855

Source: Statistics South Africa, *South African Statistics 2001*, Pretoria
1. Note that from 1998 there was a reclassification of the water board from local governments to the electricity industry.
2. Including universities and technikons.

[10] P. A. Black, K. Siebrits and T. van der Merwe, "Public expenditure and growth", in P. A. Black, E. Calitz and T. Steenekamp, *Public economics for South African students*, Oxford University Press, 2003.

The data contained in Table 4 reveal several interesting trends. In the first place, total employment has risen by 152,121 or 11.6 percent. Since formal sector employment in the South African economy as a whole fell over the same period, this somewhat understates the real magnitude of public sector employment.[11] Secondly, the aggregate increase in public sector employment is entirely attributable increases in provincial employment, with all three other sectors recording decreases in employment. Although much of the increase in provincial employment levels can be ascribed to the amalgamation of previous homeland civil services with the old provincial administrations, it is nevertheless evident that net provincial employment still grew in the post-1994 period. Thirdly, under the first post-apartheid administration, national government employment has remained remarkably stable. By contrast, both local government and the parastatal sector experienced steady declines in employment over the same period.

3. PUBLIC POLICY, THE PUBLIC SECTOR AND GOVERNMENT FAILURE

At the dawn of the decade of the 1990s,virtually all organized groups recognized that the South African economy was in urgent need of extensive economic reform. For instance, in 1993 Eckert and van Niekerk observed that the first official proposal prescribing comprehensive economic reform, the1987 *Economic Development Programme, 1978-1987* (later revised as the 1991*Revised Long-Term Strategy*), had its origins in the (then) Prime Minister's Economic Advisory Council deliberations in 1979.[12] In essence, this document represented a proposal to reduce the role of the public sector in the South African economy in order to "... afford the private sector more opportunity to conduct business on a profitable basis. …[Moreover] it is hoped that in the process the natural operation of market forces will bring about a healthy competitive economic structure that will, among other things, create more job opportunities"(Economic Advisory Council of the State President, 1991, p. 12). In 1994, Philip Mohr identified a parallel confidential official document with much the same message entitled *Ekonomiese Herstruktueering in Suid~Afrika.*[13]

Whereas the thrust of this official policy proposal was retained and indeed restated in greater detail in the 1993 *Normative Economic Model,* in retrospect it seems clear that the impetus for sweeping economic reform under the previous minority National Party government had already dissipated. In an interesting commentary on the stillborn process of economic reform in South Africa, Qadir argued as follows:[14]

"The former white minority NP government came only belatedly to free market economics, as this conflicted so markedly with the heavily state interventionist economic approach of apartheid. A key turning point was the publication in 1987 of the *White Paper on Privatisation and Deregulation in the Republic of South Africa* and subsequent implementation efforts. The privatization initiative soon stalled,

[11] L. Crase., B. E. Dollery and A. C. Worthington, "Economic growth, economic policy formulation and structural reform of the South African economy", *Politics, Administration and Change*, 34(2), 2000.

[12] J. B. Eckert and L. K. van Niekerk, "The horns of a dilemma: Economic discipline and economic development in South Africa", *Development Southern Africa*, 10(1), 1993.

[13] P.L. Mohr, "Restructuring the South African economy: Some pertinent issues", *Studies in Economics and Econometrics,* 18(2), 1994.

however, when negotiations over the transition began in earnest after 1990. The new National Party policy of deregulation and growth has been tempered latterly by electoral expediency, as nonwhite voters need to be won by some promise of redistribution".

Finally, the historic announcement by the De Klerk administration on 2 February 1990 that legalized the ANC and various other political organizations encompassed an undertaking to freeze any further economic restructuring initiatives.

Nevertheless, some limited economic reform had occurred prior to the onset of the 1990s. For example, a privatization program involving ISCOR, the South African Mint and a sorghum beer brewer had already been completed. Moreover, as part of a commercialization initiative by the Office of State Enterprises, several public enterprises were reclassified as public corporations, including the giant Transnet, formerly known as South African Transport Services, that was henceforth obliged to operate at prices sufficient to cover production costs. Similarly, various deregulatory reforms were introduced to stimulate effective competition in the South African economy.

However, the most important reform that occurred before the 1994 GNU administration took office concerned international trade relations. Various proposals for the reform of protection policy developed by the Industrial Development Corporation in 1990 were accepted in the GATT negotiations in 1993 and became effective at the beginning of 1995.[15] Since that time, according to Peet Strydom, South Africa "...has embarked on a substantial revision of its tariff

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[14] S. Qadir, "A new South Africa?", *Third World Quarterly*, 15(2), 1994, p 183.

structures, protectionist measures and the phasing out of its controversial export subsidisation, the General Export Incentive Scheme (GEIS)."[16] Blumberg has argued that this liberalization of international trade obviously intensified the need for domestic economic reform in South Africa.[17]

However, virtually no progress had been made in many other areas, such as the reduction in the share of direct taxation in total government receipts, the removal of fiscal drag, public sector dissaving, and overall control of government expenditure.

Official policy documents outlined above were accompanied by numerous programs emanating from the private sector, several "think-tanks", and some political parties. For example, in 1987 Clem Sunter produced his "high road-low road" economic scenarios for South Africa. In much the same vein, Nedcor-Old Mutual brought out their *Change of Gears* strategy[18] Similarly, the (then) Democratic Party developed its own economic plan entred on tax cuts, deregulation, privatization, labour-intensive production, and export rientation. Moreover, several quantitative analyses were conducted, including the Macro Economic Research Group, the World Bank computable general equilibrium model, and the Development Bank of Southern Africa's social accounting matrix.[19]

Although almost all proposals prescribed some degree of microeconomic reform, Mohr has argued that most "establishment" policy packages shared many common

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[15] Industrial Development Corporation, *Modification of the Application of Protection Policy*, Sandton, 1990.

[16] P. D. F. Strydom, "International trade and economic growth: The opening up of the South African economy", *South African Journal of Economics*, 63(4), 1995, p 557.

[17] L. Blumberg, "The Uruguay round and South Africa", *Development Southern Africa*, 12(5), 1995.

[18] B. Tucker and B. R. Scott (eds.), *South Africa: Prospects for a peaceful transition*, Cape Town, 1992.

[19] Eckert and van Niekerk, *op cit*.

features[20]: “For the government, the Reserve Bank and some other establishment groups, economic instability in the form of a declining domestic and international value of the Rand seems to be the major issue. Restructuring is aimed at achieving or maintaining greater macro-economic stability in the narrow sense, which is regarded as a prerequisite for renewed economic growth”.

The core of official economic policy of the new GNU was embodied in the RDP. At the time, Nolan described the RDP as a bold plan which aimed “... to provide a comprehensive approach to harnessing the country's resources to reverse the effects of apartheid and to attack poverty and deprivation over a five-year period, setting out the framework for economic and social policy (as well as for developing the political institutions of the new democracy)”.[21] The RDP was to be managed by the Ministry in the Office of the President, resourced through an RDP Fund, and financed by means of normal budgetary processes. In essence, the RDP was based on “six principles” developed in an RDP *White Paper* published in September 1994. Accordingly, specific RDP programs were to be “integrated and sustainable”; initiatives were to be “people-driven and people-centred”; programs should “promote peace and security for all”; RDP developments were to foster “nation-building”; initiatives were to “link reconstruction and development”; and finally, initiatives were to “democratize South African society”.

Given this ethereal rhetoric, somewhat surprisingly some actual projects under the RDP were in fact commenced. In his “state of the nation” address on 24 May 1994,

[20] P. L. Mohr, “Restructuring, structural adjustment, and all that”, *Studies in Economics and Econometrics*, 18(3), 1994, p 45.
[21] B. Nolan, “Poverty, inequality and reconstruction in South Africa”, *Development Policy Review*, 13(1), 1995, p 161.

President Mandela announced a series of key programs, so-called "Presidential Lead Projects" to inaugurate the first year of the RDP. Planned to be delivered through the national, provincial and local government structures, these projects "… were selected on the basis of a set of explicit criteria which included their potential high impact on communities, job creation, community empowerment, provision of basic needs, training and capacity development, transparency, potential to leverage existing funds, and economic and political sustainability".[22] In aggregate, 21 projects had been initiated by early 1995 with an additional 4 programs launched at the end of the 1994/95 financial year.

In hindsight, it seems clear that there was a need for the RDP or some comparable growth-orientated redistribution blueprint to capture the mood of the South African electorate in the historic April 1994 elections, as much as to actually solve economic and social problems. Nonetheless, serious doubts immediately surrounded the likely efficacy of the RDP. Thus, even at its unveiling informed opinion appeared sceptical of the RDP having a significant impact on living standards in South Africa. Some writers drew attention to weaknesses in the RDP itself. For instance, Nolan maintained that "the RDP has generated considerable confusion, because in so many areas it advances general rather than specific goals, leaving open how its objectives are to be achieved, and with little clarification on its costing and financing".[23] It was also argued that notwithstanding the ambitious aims of the RDP, which made it captive to appropriate macroeconomic policy settings over the life of the plan, the RDP was virtually devoid of discussion on

[22] Department of Finance, *Budget Review*, Pretoria, 1995, section 2.1.3.
[23] Nolan, *op cit,* p 163.

pertinent macroeconomic policymaking. For example, Turok contended that "the' people-driven' process envisaged by the RDP is unlikely to be smooth or harmonious"; efforts by the RDP to mobilise the whole of South African society necessarily meant that conflicts in society at large were mirrored in the RDP and its projects.[24]

Well-founded doubts arose over the financial foundations of the RDP. Thus, while R39 billion was estimated as the total impost of the RDP during the election campaign prior to April 1994, it later transpired that this figure represented only annual expenditure on the RDP in its 1998 final year, with the cost of the entire program estimated at R135 billion.[25] Some commentators expressed concerns over the capacity of the South African bureaucracy to implement the RDP successfully. For instance, Charles Simkins pointed to the inauspicious beginnings of the RDP and layed the blame on bureaucratic failure: "What progress has been made? The RDP *Monitor* of August 1995 reported that more than R1.7 billion of the $2.5 billion allocated to the Reconstruction and Development Fund in 1994-95 had not been spent in that fiscal year, and estimated that at least 20 percent of the 1995-96 allocation would not be spent. The major reason is lack of state capacity".[26] Simkins identified three dimensions of this "state incapacity". "Program incapacity" referred to the difficulties involved in implementing specific programs in a complex, evolving and uncertain policy environment. Secondly, the reconstruction of the South African civil administration at the provincial and local

[24] I. Turok, "Reconstruction or reconciliation: South Africa's Reconstruction and Redevelopment Programme", *International Journal of Urban and Regional Research,* 19(2), 1995, p 316.
[25] Nolan, op cit, p 163.

levels from the former provincial and homeland bureaucracies had not yet been completed, leaving the existing

bureaucratic structure incapable of efficient policy implementation. Finally, "...the establishment of the controls essential to good government takes time and is not always adequate...".[27] In order to avoid bureaucratic failure, Simkins suggested the RDP employ the extensive network of nongovernmental organizations in South Africa and garner the help of the private sector. Moreover, he argued that Parliamentary appropriations would never be sufficient to fund the RDP adequately, and so alternative institutional arrangements, like privatization, would have to be employed: Simkins maintained that "...the state will have to alter its portfolio of assets; and urban infrastructural development will inevitably be linked with privatization". [28]

Other writers were even less charitable about the prospects for the success of the RDP. For example, Bethlehem (1994, p. 297) presented the following argument: "What kind of state is required in South Africa if the right balance between delivery and efficiency is to be achieved? The RDP provides an answer when it envisages a small, efficient, enabling state, but its commitment is put in doubt by its subsequent elaboration of a bureaucratic framework required to meet its basic needs objectives. Being dealt with here is a new South Africa with ten separate governments - a central one and nine provincial – each with its own paraphernalia of administration. In the end, perhaps, the government will be saved by the macroeconomic

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[26] C. E. Simkins, "The New South Africa: Problems of reconstruction", *Journal of Democracy*, 7(1), 1996, p 11.
[27] Simkins, *op cit,* p 86.
[28] Simkins, *op cit,* p 86.

constraints discussed earlier. Unless it is going to violate the commitment to fiscal balance and monetary restraint already made, it is going to have to cut its bureaucratic coat to fit its revenue cloth".

Along similar lines, Nattrass contended in the popular press that the RDP was simply "...a costly and ultimately unnecessary piece of bureaucratic musical chairs".[29] In hindsight, the RDP represented a highly interventionist microeconomically-orientated policy of physical and social infrastructure development targeted at the poorer sections of South African society. It required a sophisticated state bureaucracy to succeed and failed because the South African state did not possess the requisite administrative capacities.[30]

Subsequent policy formulation was grounded on a much more promising foundation in the form of the *Macroeconomic Strategy on Growth, Employment and Redistribution* (GEAR) policy initiative.[31] In contrast to the microeconomic focus of the RDP, GEAR represented a macroeconomic strategy based on "... the premise that job creation is the way to address poverty and and that to increase employment opportunities higher economic growth is required".[32] Key elements of GEAR included a deficit reduction scheme, tariff reductions, stable real exchange rates, conservative monetary policies, and "moderate wage demands".[33] Given its adherence to the so-called "Washington consensus"[34], and its low demands on the

[29] N. Nattras, "Evaluating the RDP", *Weekly Mail,* 15 September, 1995.

[30] Simkins, *op cit.*

[31] Department of Finance, *Macroeconomic strategy on growth, employment and redistribution,* Pretoria, 1997.

[32] B. Nomvete, G. Maasdorp and D.Thomas (eds.), *Growth with equity*, Cape Town, 1997, p 3).

[33] M.Biggs, *Getting into GEAR: Government and the economy*, Cape Town, 1997, p 48/49).

[34] D. Lal, "Policies for economic development: Why the wheel has come full circle", *South African Journal of Economics*, 63(4), 1995.

bureaucratic machinery of government, GEAR thus had a reasonable chance of achieving at least some of its objectives.[35]

4. STATE INCAPACITY

The RDP represented the capstone of post-apartheid economic policy aimed at mobilizing the public sector in a comprehensive attempt to reinvigourate the South African economy after its long history of negative per capita economic growth. Although several factors contributed to the failure and subsequent demise of the RDP, including inadequate and misleading policy formulation, it has been argued that state incapacity was the central cause of its downfall.[36]

State incapacity in the South African public sector is by no means a new or novel feature and can be traced back at least as far as the electoral victory of the PACT in 1924. From that time onwards, discriminatory legislation sought to deal with the "poor white" problem *inter alia* by using public agencies as "employers of last resort" for impoverished white workers.[37] The politicization of the civil service was significantly increased with the 1948 election win of the National Party and the implementation of ideological apartheid proper. Discrimination in public sector employment now expanded to almost all non-Afrikaners, including English-speaking whites and even Afrikaners opposed to the National Party administration, with little cognizance of the efficiency-inhibiting effects of this discrimination on the performance of the civil service.

[35] An appraisal of the success or otherwise of GEAR falls outside the ambit of the present focus on the South African public sector.

As a consequence of this historical legacy, the newly elected post-apartheid GNU thus inherited a public sector substantially flawed in two major respects. In the first place, as we have seen, it fell heir to a complex farrago of homeland civil service systems, the old "white" South African public service, the four former provincial administrations, and the coloured and Indian Tricameral administrations, all combined in a new central government and nine new provincial governments. Moreover, as a method of ensuring an untroubled transition of power, President Mandela guaranteed the continued employment of all public servants, including hundreds of thousands of former homeland employees who owed their jobs to political patronage rather than any appropriate skills. Secondly, the longstanding politicization of the South African civil service meant that the new government could invoke historical precedent in its efforts to "deracialize" public sector employment. The scene was thus set for a catastrophic loss in state capacity, even when existant low levels of bureaucratic efficiency are taken into account.

The first official recognition of the calamitous decline in state capacity in post-apartheid South Africa came in the form of the 1997 *Provincial Review Report*, usually referred to as the *Ncholo Report* after its Chairperson Public Service and Administration Director-General Dr Paseko Ncholo[38] The *Ncholo Report* began with a useful summary of the massive reorganization and consolidation that had taken place in the South African public sector since the historic elections in 1994. For instance, amalgamation of the previous racially-based administrations (South

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[36] B. E. Dollery, "Review note: *The Demise of the South African Economy*", *South African Journal of Economics*, 71(1), 2003.
[37] S. J. Terreblanche, *A history of inequality in South Africa, 1652-2002*, Cape Town, 2002.

African government, Own Affairs administrations, homelands, and the old provincial administrations) into a single public service divided between nine provinces and new national departments was now complete. The "transformation process" was further complicated by a deliberate policy of changing the public sector employment profile to more accurately reflect the actual demography of South Africa. In practice, this policy simply meant hiring people of colour and women wherever possible. Job guarantees issued to white bureaucrats were circumvented through a "voluntary severance package (VSP) scheme" that ensured substantial payments were made to senior civil servants who left the public service. The effects of these far-reaching changes severely undermined the administrative capacity of the South African public sector. Dollery and Wallis have observed that "in many key departments, like the national Department of Finance, virtually all former top managers, predominantly white male Afrikaners, have taken voluntary reduncancy", with the inevitable result "… a dearth of expertise, with national and provincial departments competing for experienced public administrators".[39] Along similar lines, Ramathlodi maintained that "the situation is far from ideal" in the various provincial administrations "since some national departments appear to be more determined to siphon off what little capacity we have left rather than to strengthen our structures".[40]

[38] Department of Public Service and Administration, *The Provincial Review Report*, Cape Town, 1997.

[39] B. E. Dollery and J. L. Wallis, "Adminstrative constraints on policy making in the New South Africa: Government failure and the Ncholo Report", *Politics, Administration and Change*, 32, 1999, p 23.

[40] N. Ramatlhodi, "Centre won't hold if the provinces are sidelined", *Sunday Times*, 28 September 1997.

The results of the drastic reduction in state capacity soon became evident. Most significantly, as we have seen, the *dirigiste* RDP policy initiative collapsed largely through administrative incapacity Commenting on the incapacity problems experienced in implementing the RDP, Blumenfeld noted that"by the end of the GNU's first year in office, however, the programme was clearly in difficulties, both practically and politically", especially due to the fact that "the probity and efficiency of the new administration were quickly undermined not only by evidence of bureaucratic incompetence and excessive red tape, but also by allegations of fraud and corruption in several projects".[41]

Many other stark instances of government failure due to state incapacity began to emerge. For example, in 1997 the East Cape provincial administration was obliged to suspend social security payments after it had overspent its annual pension budget by 2.4 billion rand barely halfway through the fiscal year. [42] Moreover, in the same province at the same time, the Department of Education could not even pay building contractors involved in school construction in townships.[43]Numerous similar examples of administrative disintegration became evident in other provincial administrations. Indeed, Greybe claimed that "the Northern Province, Eastern Province and Kwazulu-Natal are on the verge of collapse".[44]It is thus clear state incapacity had begun to paralyse effective economic and social policy making

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[41] J. Blumenfeld, "From icon to scapegoat: The experience of South Africa's Reconstruction and Development Programme", *Development Policy Review*, 15, 1997, p 67.

[42] M. Marasha, "Notice to all social security beneficiaries and community organizations in the Province of the Eastern Cape", *Eastern Province Herald*, 20 September, 1997.

[43] M. T. Ratshitanga, "Builders go broke as Ecape defaults", *Weekly Mail and Guardian*, 10 October, 1997

[44] D. Greybe, "Three provinces on 'verge of collapse'", *Business Day*, 14 October, 1997.

in the latter part of the 1990s and thus drastically limit the ability of the ANC-dominated administration to effectively govern South Africa.

5. CONCLUDING REMARKS

In retrospect it is now clear that the massive transformation contingent upon governmental change in April 1994 has had a devastating impact on the ability of the South African public sector to implement economic and social policies in the post-apartheid era. The collapse of the RDP emphatically symbolized how state incapacity had been reduced to the extent that efficient policy implementation at the microeconomic level was no longer a rational policy option.

This raises the thorny question of how South African policy makers should confront the constraints imposed by government failure. The authors of the 1997 *World Bank Development Report* identified two main methods of dealing with the problem of state incapacity. [45]In the first place, policy makers should seek to "match the state's role to its existing capability, to improve the effectiveness and efficiency of public resource use".[46]In the South African context, this would imply carefully shepherding scarce administrative skills in the public sector and limiting the role of the state to essential core functions, like the provision and enforcement of law and order. Other essential public services, including education, health and infrastructure, should be government financed but delivered to the greatest possible extent by private firms and voluntary sector organizations. The second approach resides in a concerted attempt to "reinvigourate the state's capability through rules,

[45] World Bank, *World Bank Development Report,* Washington, 1997.
[46] World Bank, *op cit*, p 25.

partnerships, and competing pressures inside and outside the state".[47] It is immediately evident that this approach represents a long-run method of ameliorating government failure through capacity building; education, training, the entrenchment of anti-corruption protocols, and the develop of alternative institutional structures to enhance contestability in service delivery all require considerable periods of time.

The two capacity-building strategies advocated by the *World Bank Development Report* are by no means self-exclusive. Indeed, they can be employed in tandem as complementary methods of enhancing state capacity. Following this approach, in the short run, the role of the state would be limited to an absolute minimum in accordance with available bureaucratic expertise. Over the longer term, the functions of government could be extended as the degree of state incapacity is reduced.

However, the approach adopted by South African policy makers in the second part of the decade of the 1990s seems to embody the worst possible model: simultaneously expanding the role of the state (though the RDP and other complex *dirigiste* policy initiatives) whilst drastically reducing state capacity (through affirmation action and expensive redundancy schemes aimed at removing highly skilled personnel). It is thus hardly surprising that public programs largely failed in their intended aims over this period.

[47] World Bank, *op cit*, p 25.

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