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The Mixed Economy of a Democratic South Africa

As majority rule in South Africa becomes nearer increased attention is focussed on what type of economic structure will be put in place after it is achieved. The African National Congress (ANC) is committed to a "mixed economy" but much speculation and pressure exists over the precise implications of this for South African and international businesses and for the people. It is fuelled by the fact that "the mixed economy" is a loose concept rather than a rigorous economic model so the term itself could be applied to the economic arrangements of countries as different as India, South Korea, Nicaragua, and Zimbabwe, or, within Europe, Sweden, Yugoslavia, Britain and West Germany.

What might the economic system of a democratic non-racial South Africa look like; what is the implication of the ANC's "mixed economy" strategy for private and state ownership; for planning, markets, government regulation, and for running the economy in line with new priorities? In this paper I attempt to pin down the specifics of a mixed economy and examine some of the controversy that accompanies it. The paper concentrates on the economic nuts, bolts and transmission belts of the system rather than the politics surrounding it. Although most political discussion centres on the issue of state enterprise and the role of private ownership, the ownership of enterprises is only one aspect of the mixed economy.

Two points underlie this discussion of the mixed economy.

The first is that just as there are many different types of mixed economy, so South Africa already has one type of mixed economy and the program of the ANC should be interpreted as aiming to construct a very different type. The existing system is a "mixed economy oriented toward capitalism" (1) and it could be argued that the ANC's strategy is to build a "mixed economy oriented toward socialism". But the existing mixed economy is not simply oriented toward capitalism. It is oriented toward the special South African form of capitalism which is based on apartheid, and the ANC's aim is to construct a mixed economy which overturns the economic basis and effects of apartheid. That aim will involve root and branch changes and will involve economic restructuring on a scale comparable to the post war restructuring of Europe.

The second is that South Africa's future economy cannot be considered from the point of view of its internal effects and dynamic alone, for South Africa cannot escape the influence of the world economy or its position in the southern African region. On the one hand the new economic system has to be resilient enough to adjust to changes in world markets; for example, changes in the international prices of the minerals the country exports. On the other hand the goal should be outward looking in the sense of reconstructing South Africa's position in the world economy; for example, industrialising and modernising the existing base in order to establish the country as a major exporter of manufactured goods.

Since the notion of a "mixed economy" has largely been a political label, used to define positions in political debates, the next section looks at its political background. Then the paper concentrates on the concept as an explicitly economic model and examines four distinct economic dimensions of the mixed economy. The first dimension is ownership; the mix of state and private ownership. The second is the regulation of markets; are commodities to be bought and sold at market prices; or are prices and trading to be controlled and regulated by the state? The third is the role of taxation and budgetary policy. The fourth is the role of planning.
In the final section the timing and development of different aspects of economic restructuring is discussed for in addition to having a long term perspective on the type of system to be built, it is necessary to have a view on what are the most urgent policies to implemented.

Several questions are omitted from this paper. The land question and agricultural policies have special characteristics and are not included here apart from the broad framework for food prices (2) and that is a serious omission for they will have a wide influence on economic development. Similarly, the important role the state welfare system will play in reshaping the social infrastructure is not considered in detail. And the possible mixture of alternative management systems, including workers' real representation on the boards of enterprises and embracing workers' cooperatives, is not considered although those alternative systems can shape the character of the mixed economy.

I. The Political Background

The question of state ownership and the future role of private enterprise has been a cornerstone of the attacks by South Africa's rulers on the ANC. Especially since the idea of a "total strategy" to defeat a "total onslaught" was developed, the liberation movement has been portrayed as a front for international communism. The explicit and implicit message is that its aim is to install an economy where all important sectors are state owned and state run. That message has partly succeeded, at times, in achieving the legitimation it was designed for. At home it did assist in bringing big business into the framework of the "total strategy" for a while after 1979 and abroad it was a significant element in securing the support of the Reagan and Thatcher administrations.

By the same token, since the historic first journey of South African business leaders to meet the ANC, the issue of whether or not an ANC government would nationalise significant sectors has been top of the agenda. The legitimacy of the ANC in the eyes of big business and Western politicians has increasingly turned on whether the ANC can be presented as having abandoned a former commitment to comprehensive state ownership and committed itself, instead, to a "mixed economy".

The ANC does, indeed, envisage a mixed economy, with both private and public sectors playing their role, as the basis of the new society. In a significant statement in 1987 the ANC said that to achieve the twin objectives of redistribution and high economic growth "the new democratic order will necessarily have to address the question of ownership, control, and direction of the economy as a whole to ensure that neither the public nor the private sectors serve as a means of enriching the few at the expense of the majority" (3)

In the context of today's politics the interesting point is that the commitment to a mixed economy is widely seen as a shift. As leaders previously opposed to the ANC increasingly recognise the democratic movement as the legitimate leadership of the nation they are able to claim that the ANC has moved toward a position of moderation marked by a commitment to a mixed economy. To support this emphasis on a shift, the ANC's commitment to a "mixed economy" is contrasted with the economic clause of the Freedom Charter with its statement that the mines and other monopolies will be transferred to "the ownership of the people as a whole". But in fact that clause has always been part of the ANC's commitment to a mixed economy. It coexists in the Freedom Charter with a statement that other industries will exist while over all the state will have the responsibility of ensuring their operations "assist the well being of the people".

Those general formulations are broad enough to have been applied to the types of obligations assumed by British governments from 1944 to 1979 in constructing and running the mixed economy of a few nationalised industries, a welfare state, and a full employment macro economic policy. But the political struggles in South Africa, and the regime's attempt to present its defence of apartheid as a defence of free enterprise, caused
the ANC and the Freedom Charter to be seen as extremist. In contrast to that label, the mixed economy became, in turn, a political peg promoted by previously hostile leaders to enable them to say that the ANC has become more moderate. But it is not a static political label for the question of "what type of mixed economy?" has become a peg for powerful pressures on the ANC to resist a commitment to state ownership.

The idea of the mixed economy also has a political role which is more substantial than its role as a label in a world where ideologies and perceptions are changing. It is central to the question of state power and relates to whether the democratic movement finds, when it comes to power, that the state does have real economic levers under its control to reshape society. This is a fundamental question that underpins much of the discussion in the democratic movement over the future economic strategy.

It is well known that Afrikaner political power after 1948 went hand in hand with an expanded state role (including expanded state ownership) to reshape South Africa in a mould designed to secure economic, social and political power for Afrikaners and their allies. Similarly, the control of the post colonial state has enabled the leaderships of all newly independent nations to use parastatals and other economic levers in their attempts to reshape their societies. The democratic movement is strongly influenced by similar views of the need to secure and use state power by ensuring the state has a significant direct presence in the economy. The counterpart is that as the National Party increases its commitment to privatise existing state enterprises, the democratic movement fears that this will mean the state machinery taken over when majority rule is achieved will be a hollow shell.

As a political notion the debate over the mixed economy has turned on state ownership and the position of the private sector. How much nationalisation will there be? Will private ownership of industry be secure? When we turn to the economics of the mixed economy it becomes clear that the amount of state ownership is only one aspect, and not always the most important aspect of how such an economy works. The following sections examine it as one of four dimensions of the mixed economy.

2. State and Private Ownership

The discussion of the future role of state ownership in South Africa is taking place in the context of an economy which is already heavily dominated by state enterprise. The largest parastatals, Escom, Iscor, SATS, Sasol, Armscor, have accounted for a high proportion of employment and investment and have had a key role in shaping the direction of the economy. In 1980 they, together with the rest of the state sector, employed 34 per cent of economically active whites and between 12 and 16 per cent of other groups.

Regarding investment, Escom alone has accounted for over 40 per cent of the economy's spending on new plant and machinery. Each parastatal has been strategic in shaping the apartheid-based economy: SA Railways created and ran the system that carried workers to the mines and from the townships to the workplaces; Sasol was designed to secure oil supplies (and chemical derivatives) especially when put at risk by sanctions; Armscor built South Africa's arms industry to defend apartheid and reduced the impact of the UN arms embargo; while from 1942 the Industrial Development Corporation invested in industries, particularly manufacturing, originally to fulfil its goal of building an industrial base on import substitution and, subsequently, to diversify exports.

Nevertheless, the role of state ownership in the new South Africa needs to be discussed for, although a democratic South Africa would, at present, inherit a substantial state sector, it would be faced with the task of changing its role and the question of how large that sector should be. In addition, the National Party's present announced strategy is to reduce the amount of public ownership through selling state assets to the private sector (privatisation) so the inheritance of a large sector cannot be taken for granted and the question of the extent of public enterprises is an immediate one.
The question is usually posed in terms of whether the state sector should be increased through nationalisation of private enterprises. Taking the cue from the Freedom Charter, the specific areas concerned have been the banks, mining finance houses (especially the largest, Anglo American) and other conglomerates ("monopolies" such as Rembrandt). Adding such firms to the state sector would be quite consistent with a mixed economy.

Although the new South Africa would have many enemies claiming that such nationalisation proves the country has become a totalitarian, communist system, many countries firmly committed to capitalism have had mixed economies of that type. France built its post-war economic miracle around a state sector that included major banks (11) and manufacturing and commercial conglomerates such as Renault; and Italy's mixed economy has had at its heart the banks, manufacturing, and commercial enterprises owned by the state and controlled by the Institute for Industrial Reconstruction (IRI) (12). From one end of the political spectrum those European nationalised sectors may be judged as a symptom of extreme socialism while from the other they have been categorised as crucial props of a capitalist system (13). The question we can consider is not whether such nationalisations deserve one or another political label, but, considering them as an element in a mixed economy, what are their economic merits and disadvantages?

Economic Rationale of Nationalisation

The economic arguments for nationalising major enterprises as part of a mixed economy are summarised by the phrase used for decades by the British Labour Party in its programme for a mixed economy; it was committed to taking "the commanding heights" of the economy into public ownership. The idea was that in order to reshape the economy the state needs control of some sectors because they are commanding heights, influencing everything else, and in order to control them it is necessary to own them. In order for that argument to stand up we have to consider what is meant by the commanding heights; in what sense are some sectors or firms more commanding than others? And we also have to consider whether the only way or best way to control them is by nationalising them.

For a firm or sector to be classified as one of the commanding heights, size alone is not the key criterion: Coca Cola is one of the largest US corporations but neither it nor the soft drinks industry as a whole would be considered a key lever to be grasped by a Washington trying to reshape the US economy. The important characteristics are the functions, operations, and linkages of the enterprise.

One characteristic that can make an industry part of the commanding heights is the nature of the goods or services it produces. In many countries industries are counted as part of the infrastructure of the whole economy and nationalised because their products - electricity, coal, iron and steel, or transport services, for example - are used in almost every other sector. This argument for nationalisation is that public ownership is the best way to ensure that the crucial material inputs for all other industries are available to support the overall pattern of development that the state wishes to see.

The need for the state to decide how much should be invested in energy production, transport services and similar industries has been used as a rationale by many countries which have nationalised such infrastructural industries. Even in South Korea, the growth of export oriented private industry under the leadership and direction of the state, was based on planned expansion in the state owned energy industry, and public enterprises operated in steel and other metal manufacturing. (14)

In South Africa, the provision of key material inputs for industrial development and the strategic planning of their expansion has been one of the main roles of the parastatals and has been seen by Pretoria as a principal reason for their public ownership. The Electricity Supply Commission (Escom) formed in 1922 is a clear example.
Throughout the industrial expansion following 1948 Escom has, in a strategic fashion, planned the expansion of electricity supply to meet the projected needs of the new mines and factories and it was able to command the investment resources to achieve this. The task was giant, for the mineral based economy has an extraordinarily high degree of electricity input per unit of output, but Escom ensured that electricity supplies grew by nearly 9 per cent per year from 1950 to 1974 and only slightly less fast into the early 1980s. In order to achieve this Escom's capital investment program continually absorbed a high proportion of the country's savings and foreign credit (being equivalent to nearly 42 per cent of net domestic saving in 1982). (15). The important point here is that it was believed that this strategic, planned development of electricity supply on a large scale was only possible by a state owned industry.

Securing supplies of key material inputs is of less relevance in considering the extension of nationalization to new sectors since the major sectors of this type have long been in public ownership in South Africa. But it remains a consideration. One reason is that some of South Africa's major resources remain in private hands, especially coal; nationalization of the coal mines may be justified in order to ensure the supply of coal as an energy source for the reshaped economy is secured. A second reason is that since the 1987 White Paper, Privatisation and Deregulation in the Republic of South Africa, and especially since the 1988 Budget speech plans to sell (49 per cent) of the state's interest in Escom and other public corporations have been developed. (16). As a result the government of a democratic South Africa may have to reconsider the ownership structure of industries which had been wholly state owned but recently part privatized.

A second characteristic warranting an enterprise being considered among the commanding heights to be nationalised is that it commands a high proportion of the finance available for investment throughout the economy. This is directly relevant to the question of whether the banks, mining finance houses, and other 'monopolies' should be nationalised on economic grounds. The main task of the post apartheid state will be to ensure that the economy's surplus is invested in new directions and in new ways in order to build a system that is not based on apartheid.

Until now, the profits of the mining finance houses have been the main source for financing new mining, manufacturing, and agricultural developments in the apartheid system. The profits of the other big conglomerates have performed a similar function. And the commercial banks have been the conduits for channelling these funds and others to investment in productive sectors (or into unproductive speculative activity). Nationalization of these institutions could give the state direct control of this surplus and ensure it is invested wisely to restructure the economy. It can be argued that if these enterprises remain privately owned they will invest their funds overseas, in financial speculation, in socially undesirable projects, or in new mines, factories, and agri businesses using the old apartheid-based work processes.

The Anglo American Corporation (AAC) is often taken as a case in point because of its size, because under apartheid it has strategically used its huge funds to build and shape the economy, and because it is sometimes argued that AAC is now trying increasingly to move control of its profits abroad. Anglo American has been the foundation stone on which much of the apartheid economy has been built. The profits from its mining investments have at different times directly funded the great developments and turning points that have shaped the apartheid economy. A noteworthy example is the way that, after becoming the largest gold mining group and leading the expansion of the industry into new areas in the 1940s and 1950s, Anglo American took the decision to fund the expansion of South Africa's manufacturing industry in the 1960s.

Anglo American took the strategic decisions on how to meet the extraordinary financial needs of the new mines in the Orange Free State and, as a result, the huge post war expansion of gold mining, dominated by Anglo American, was achieved and underpinned the subsequent decades' expansion and profitability of the system. At the
start of the 1960s the huge profits from the Free State gold fields and their declining capital needs led Anglo American to decide to invest in the modernisation and expansion of South Africa's manufacturing industry. Between 1960 and 1968 the value of Anglo American Corporation's own industrial interests rose nearly fivefold from around R50 million to R285 million. If we include the industrial holdings of the other big holding companies in the Anglo group (De Beers and Rand) the group's industrial holdings at the end of the 1960s are estimated to have reached R600 million. (17)

The result of Anglo having controlled and directed the investment of so much of the surplus generated in South Africa (and in the southern African region as a whole) is that Anglo American Corporation and its affiliates and subsidiaries accounted for as much as 56 per cent of the total shares quoted on the Johannesburg Stock Exchange in 1983, while the next largest, Barlow Rand accounted for only about 7 per cent. (18)

The economic case for nationalising Anglo American would rest to a large extent on the view that the huge power it has shown itself to have to shape economic development through its disposition of the surplus should be under the control of the state. And a similar economic case can be made for nationalising the banks and other giant conglomerates.

A third reason for judging that an enterprise should be nationalised as one of the "commanding heights" is that it has a direct and preponderant involvement in the employment of labour, for employment practices - hiring, firing, the organisation of production, and provision of training and housing - are based upon racial divisions and are at the heart of apartheid. This consideration relates especially to the mines and the largest manufacturing employers. Nationalisation can be justified on the grounds that such radical changes in the way these enterprises operate are necessary in order to eradicate apartheid at its roots that they can only be achieved under public ownership.

Problems of Nationalisation

There are, therefore, strong arguments for identifying some sectors as the commanding heights and nationalising them. But other economic considerations must also influence policy towards the roles of the public and private sectors. What are the objectives and operating rules of the future public corporations to be? There is little point to nationalising private firms if they are then run in the same way as they would have been by the private owners. And the existing public corporations will make little contribution to building a new society if their policies and directions are no different from what they were in building the apartheid economy. Will public ownership lead to great losses of efficiency compared to what can be achieved by private industry? And, will the costs involved in carrying out the nationalisation of private corporations outweigh the economic benefits?

The first question has been implicitly answered by the opponents of nationalisation arguing, as does Merle Lipton, that in the present stage of South Africa's development private capital itself is opposed to apartheid; if unfettered from the apartheid political system, it will change its practices (and is already doing so) so nationalisation and a state lead in a different direction is unnecessary or counter productive. The last two questions have been put firmly on the agenda by the supporters of private enterprise both in South Africa and internationally and, although their criticisms are often self interested, they indicate real problems with nationalisation that do need to be addressed. In these paragraphs we look at each in turn.

Nationalised industries have often been criticised on the grounds that they are inevitably inefficient. The theoretical basis for such a view is weak. It rests on the argument that only the profit motive can stimulate management and employee of large corporations to produce at minimum cost but both halves of that argument are weak: modern theories of the private firm suggest it may not operate in a profit maximising or
cost minimising way (19), while the operating rules of nationalised industries can be structured to induce cost minimisation (20).

Critics of nationalisation often claim that experience supports their view; that, throughout the world, previously efficient private industries have universally been wrecked by bad management under state ownership. In fact, the record of nationalised industries in other countries does not support that view. Leaving aside successful state owned manufacturing organisations in continental Europe, the often denigrated state owned coal industry in Britain is, in fact, a good example of the benefits of nationalisation. The industry was privately owned until after the Second World War and suffered from low investment, low productivity, and backward technology. As a result of nationalisation the industry was restructured and reorganised in a way that private enterprise had not been able to achieve. Investment was raised dramatically and in subsequent decades several revolutions in technology were achieved. Between 1947 and 1982 labour productivity more than doubled despite the fact that deeper pits increased the difficulties (such as haulage distances) that had to be overcome. At the same time, public ownership led to huge improvements in working conditions; facilities for workers were expanded and modernised and the accident rate has been dramatically cut per man per shift (the crude figures are that fatal accidents were cut from 432 to 33 between 1947 and 1981).(21)

A stronger case can be made for arguing that nationalised industries have not generally been profitable (although there are several notable exceptions) but profitability is not always a good measure of efficiency. One reason is that profits are affected by prices and these have often been held artificially low by government or semi-official policy. Sometimes this has been done to enable private firms to buy their output cheaply, at other times it has been an attempt to use the nationalised industries as the front line in anti-inflation policy. If low profits result, it is not because the industries are publicly owned but because their prices are regulated; this highlights a general distinction between the roles played by policies on ownership and on regulation (which are discussed below). Another, major, reason why profitability is not always a good measure of efficiency is that high profits can simply result from low wages being paid to the industry’s workers even though productivity is low.

Whether efficiency is defined as high productivity or high profit, it is in many cases the result of repressive controls over the workers. This is particularly relevant for South Africa. It is sometimes said that the gold mines and others should be left in private hands because their high efficiency and profitability would be destroyed by public ownership. But their high profitability has resulted from their apartheid roots. Features such as the migrant labour system, compound living, racially based wage differentials and job reservation have all contributed to high profits. Would a democratic South Africa trying to overturn apartheid’s legacy want to preserve efficiency of that type? If private efficiency is based on operations rooted in apartheid, nationalisation to change the industries’ methods could be justified even if productivity and profit suffers. In other words, efficiency is not a neutral technical measure and many would judge a mine to be more efficient if it had, say, lower profit but non-discriminatory wages and better working conditions and safety.

All those problems relate to the comparison between the running of public as against private enterprises. The second type of problem concerns the act of taking industries into public ownership: will the costs of nationalisation be too great?

The most obvious cost is financial. If the existing owners are not going to have their assets simply confiscated where would the money come from to buy their firms and could the money not be better used for other purposes? The answer depends on what type of money is used, but there are difficulties attached to each.

The owners would want to be paid in foreign exchange but that is a precious resource which could alternatively be used by the government to expand health service.
for example, or to import capital equipment. If it is used to nationalise corporations the owners would profit by transferring the funds and investing abroad. That is what Anglo American did with the dollars it received from the government of Zambia's purchase of 51 per cent of the shares in its copper mines. The group put the money one of its companies, Minorco, based in a tax haven outside Zambia and South Africa which invested them in the United States; that was the launching pad of an expansion of Anglo American's investment in the United States which has given the group the reputation of being the largest single foreign investor in the USA. (22). The costs of such a payment method would be formidable.

An alternative is to pay cash in rand that are not convertible to foreign currencies. If the government uses tax revenues for that purpose, those cash payments to today's business elite have to be weighed against the other potential uses for those limited revenues (such as expanding and changing health and education services). Instead, the government could use the Reserve Bank and the printing press to create extra rand to finance the buy out. But it can be argued that such a huge injection of new cash into the economy would lead to inflation, and it would not reduce the economic power of big business, for the firms would have converted their existing ownership of productive assets into a pool of cash to invest in buying up other firms.

Another form of compensation would be to pay the owners in government bonds. If there were restrictions on their freedom to sell the bonds they would have converted their assets from ownership of enterprises to what, formally, are loans to the state on which they receive interest. The same effect may be achieved even without formally restricting the former owners' ability to sell their bonds, for the sheer size of their holdings of government bonds would make it difficult to sell them and government policy on interest rates in the future could increase those difficulties. This was the path followed by the British Labour government of 1945-1951 in carrying out its major nationalisations; the owners were compensated with interest-bearing government bonds and an active financial policy attempted to keep interest rates in general low initially so that the owners received low yields on the bonds. (23) This method avoids some of the costs of other forms of compensation but the new bond issue will have an impact on the country's whole system of finance (and on the accounts and management rules of the nationalised industries) which have to be taken into account.

However, whatever method is adopted payment of compensation has financial complications. This does not mean that nationalisation of big business should be automatically ruled out, for all the great structural changes needed in the future South Africa will have major and difficult financial implications. The argument that the general effects on the availability and flow of finance should not be decisive can also be justified by looking at the opposite policy, privatisation, which has been pursued vigorously in Britain under Mrs. Thatcher and is being promoted in South Africa and many other countries. The sale of large state enterprises to private investors involves diverting funds on a large scale from the other financial investments the private sector would have made, so that, as well as risking instability in the financial markets it has a cost in terms of the reduced availability of private savings to finance other investments. But governments committed to privatisation for other reasons have carried it through and found ways to minimise the financial disruption. (24) If nationalisation is desirable, its financial implications, too, can be tackled.

Nevertheless, the financial costs of compensating the former owners of nationalised industries are serious and ways of reducing them have to be examined. A radical method would be to nationalise without compensation or to compensate the existing owners at levels well below current stock market valuations of their assets. Moral arguments exist both for and against such a policy; against it is belief in the right to private property, while for it is the belief that the wealth controlled by big business in South Africa was produced by exploitation of the South African masses and should be
taken back without full payment. But even if a political decision were taken to pay full compensation there are still great technical difficulties in deciding on the valuation (25).

Another way to minimise the financial cost is for the state to take over less than all the shares in the enterprises. Full legal control of corporations can be achieved by buying 51 per cent of its shares and this path has been followed by several newly independent countries. In fact the plans of the present South African government for privatisation appear to be to leave it in control of present parastatals by retaining a 51 per cent stake in the enterprises.

In a more innovative spirit, control of a company could be gained by requiring it to restructure its capital (shares and bonds) to create a special category of shares, owned by the state, which gives the state a veto over or effective control over company decisions. Such a "golden share" would represent a small proportion of the company's value, so obtaining it would involve low financial costs, but it would give the state key control over the enterprise's policy.

The Extent of State Ownership

Nationalising enterprises and running a state sector both involve difficulties and, although controlling the commanding heights brings important benefits, public ownership is not a panacea. Inherent in the mixed economy is the continued existence of a substantial private sector. In the discussion of South Africa's future it is nationalisation of a few key concerns that is on the agenda.

There is no doubt that private enterprises of different types and sizes can contribute strongly to the growth and restructuring of the economy. A particular strength is that, apart from the largest bureaucratised and protected firms, the private sector has qualities of flexibility that are difficult to build into public corporations' operating rules. And in a situation where management experience is scarce, the administration of a large public sector may require a greater input of management than private firms.

As a result the issue for a mixed economy is how the public and private sectors are to complement each other. That turns on the question of the type of framework in which enterprises will operate. Will their actions and decisions be taken in response to market prices, will prices be set by the state, or will they be subject to a national plan? These questions apply to both public and private enterprises. To what extent will they be free to buy and sell at market prices and to what extent will those markets, or the enterprises themselves be subject to government regulation? The answers will determine the way that public and private enterprises relate to each other within the whole framework.

It can be argued that the roles of the market, regulation, and planning are much more important than the degree of state ownership. Some supporters of the mixed economy as a means of achieving radical change believe that the act of nationalisation is so difficult and costly that the same ends as could, in principle, be achieved through public ownership should be achieved through taxing the private sector, controlling key prices and regulating firms' operations. Others have noted that nationalisation itself only changes the ownership of firms but does not necessarily change the way they operate or ensure they meet national goals (26). Therefore the framework in which they operate is important for controlling both the private and the public sector. The next section examines the roles of the market and state regulation in the mixed economy. It does not lead to the conclusion that regulation would make public ownership unnecessary but it does outline a positive case for both the market and the state.
3. Markets, Regulation and Planning

In a mixed economy neither private nor public firms are free to do what they wish; many aspects of their operation are regulated by the state. In constructing the mixed economy in a democratic South Africa decisions have to be taken over the extent of those regulations. Looked at another way, firms in South Africa have historically been subject to a complex network of regulations, in the form of the laws and orders enforcing apartheid in the labour market and the whole economy, and the question is what should replace those regulations when they are swept away. Many leaders of business and finance are opposed to apartheid because of its restrictive regulation of business and wish to see it replaced by a laissez faire or 'free market' system where firms have few restrictions. The ANC's commitment to a mixed economy is a different vision; one where state regulation of firms is used to reconstruct the economy and overturn the legacy of apartheid.

What should those regulations be; which are the most important ones? Not all areas of enterprises' operations can be tightly controlled, for that would effectively mean an economy run by the civil service where none of the benefits of competition and decentralised initiatives could be gained. Moreover, the administration of regulations places a heavy burden on the state both in terms of managerial and administrative resources and in terms of costs. So priority has to be given to setting up and running particular regulations.

Labour and employment practices have been at the heart of the apartheid system so priority should be given to regulating firms' employment policies including working conditions, workers' housing and welfare provision; regulations to radically and rapidly change the position of black workers are necessary to overturn apartheid's effects. They should ensure employees have the training provision necessary for rapid change, and that wage differences, job reservation, and all the discriminatory practices that have favoured whites are banned.

Should firms' ability to hire and fire be controlled? This is a contentious issue because employers often argue that they cannot really manage their firms and organise production efficiently if they are prevented from making workers redundant (as was the case in China and other socialist countries at one time) or if they have to go through a lengthy process of obtaining ministry approval before reducing the work force (as employers in independent Zimbabwe have had to). It is true that employers who have to obtain ministry approval for redundancies do have their flexibility of management restricted but that should not prevent such controls from being introduced. 'Flexibility of management' can often mean ruthlessness in the pursuit of profit which controls over hiring and firing have to eliminate. Those controls both protect workers from the worst effects of rapid changes in production and give a positive impetus to new styles of private sector management which in the long run are more efficient and rational and which are based on cooperation between employers, unions, and the state. They are likely to have an important place in a mixed economy and the task will be to design them in a suitable manner.

Controls over minimum wages are also highly contentious, for employers in many countries often argue that they prevent firms from hiring workers who, in the absence of anything better, would be willing to work for low wages. As a result, they argue, unemployment remains high, and high wages push up their prices or reduce profits. These arguments only affect employment whose whole existence is based upon the most exploited, cheap labour such as farms and small workshops. They should not be an impediment to minimum wage legislation to ensure that workers earn a decent wage, for the aim of the future mixed economy is to build economic growth on an expansion of
employment in sound enterprises, not in firms that can only survive by paying poverty wages. Minimum wage legislation has its place as part of the overall package of measures designed to effect change in both production and employment practices. (28)

Some of the most important forms of regulation do not involve direct control of or intervention in firms’ operations. They comprise government controls over market prices, for these affect the terms on which enterprises buy their inputs and sell their products. More generally they affect people's living standards, can shape the pattern of investment and economic growth, and influence foreign trade. As a result, after achieving independence all countries' post-colonial governments have attempted to set and control the main prices in their economy. In the 1980s, however, there have been widespread moves toward removing such controls or making them more flexible. Most frequently such 'liberalisation' has been carried out within the framework of conditions imposed by the International Monetary Fund, under World Bank 'Structural Adjustment Programs', or under pressure from United States or West European government aid programs.

Bearing in mind these moves away from price controls, what role should state controls over prices have in the future mixed economy?

It is impractical and undesirable to control the prices of all inputs and products, but it is important for the government to attempt to control some crucial prices as part of its redirection of the economy. Three prices have such all-pervasive effects that the government should control them. These are the price of food (the staple food, maize or mealies), the price of foreign exchange (the exchange rate of the rand), and the price of credit (interest rates). And some others, too, have a significance that could justify controls being imposed.

**Control of Maize Prices**

The price of maize should be controlled because it strongly affects the cost of living for urban workers, the income of farmers, and the quantity of maize produced, exported or imported. If the government does not set the price (or control foreign trade) it will be determined by world market prices. Then factors such as the harvests of the United States and Soviet Union, the subsidies and trade policies of other countries, and the strategies of the multinational corporations that control the world food trade, will determine the price of maize in South Africa. If these forces lead to maize prices being low, urban workers in South Africa may benefit but at the cost of farmers suffering and of large imports; if they lead to high prices the result will be a fall in the real value of wages (and pressure for wage increases) although maize farmers will benefit. There is a danger that the trend over time would be for maize production in South Africa to be wiped out and the country would become dependent on imports since the prices received by those farmers would be too low although those prices are adequate for US farmers using advanced technology. (29)

In addition to the effects mentioned changes in maize prices will have important further consequences for saving, investment, tax revenues and inflation. Since maize prices have such wide ranging effects on the economy there is a strong case for them to be set by the government, for the democratic state has the responsibility for shaping the economy.

This task requires care, for there are great difficulties in controlling food prices. Many countries have set food prices so low, in order to benefit urban workers, that peasant producers suffer and lose all incentive to produce the crop. Many have paid subsidies to keep the selling price lower than the price at which food is bought from the producer with the result that the state has to finance large subsidy payments and has to raise taxes or loans to cover them. To operate a subsidy system or price control of any kind a large state apparatus (such as a marketing board) has to be created and administered. Such problems have given weight to arguments that it is better to let crop prices be set by market forces. (30).
But the benefits of controlling maize prices outweigh the difficulties as long as the policy is designed in a way which minimises the worst problems. Prices have to be set so that, in conjunction with policies of land reform, rural credit, extension services and supply of agricultural inputs, farmers retain an incentive to raise output. (31) The importance of setting prices so that, together with other policies, they give adequate incentives for rural production is recognised now in all mixed economies and those with a socialist orientation. (32) And the difference between buying and selling prices has to be set so that the finance required for subsidies does not place an escalating burden on the public budget. That means that the price set by the government should not permanently diverge from market prices by large amounts and should be adjustable.

Control of Exchange Rates

The value of the rand, its exchange rate against the US Dollar, the Deutschemark, or the Yen, affects the whole of South Africa. A fall in the exchange rate raises the cost of imports which raises the cost of living directly and indirectly. A rise in the exchange rate raises the foreign price of exports which can cause firms producing exports to go out of business, and it makes imports cheap which can lead South African producers to be bankrupted by competition from a flood of cheap imports. The price of foreign exchange is, therefore, a price with a much wider influence than most. In a broad perspective, the exchange rate will fundamentally affect the place of the future South Africa in the international division of labour. For example it will influence whether the country remains dependent on mining for its export revenues or whether an expansion of jobs in manufacturing is made the basis of growing exports. In a mixed economy, control over the exchange rate is a key lever in directing the economy.

The alternative to control over the exchange rate would be to allow it to be determined by bankers and firms buying and selling rands, and other currencies on the world's foreign exchange markets. But in a country where the state is attempting to control and reshape the economy in line with the people's aspirations allowing such a key price to be decided by financiers' operations must be unacceptable. In any case, in countries like Britain, where the government did claim to leave the exchange rate free in the early 1980s it is now generally accepted that such floating rates do not bring the economic advantages their advocates claim.

There are several methods for controlling exchange rates but all those applicable to South Africa will require support from controls over the quantity of foreign exchange that South Africans can buy and sell. Multiple exchange rates under which different rates apply to different types of foreign business should be administered. The present dual exchange rate differentiates between trade requirements and capital flows or speculative operations, but a different structure may be best and there should be tightened direct controls over speculative movements.

Administering exchange controls so that they are both effective and do not give rise to corruption is not simple, but the Reserve Bank already has a powerful and experienced apparatus. Another difficulty is that if South Africa's existing active market for foreign exchange (including, at present, a futures market) continues to exist, the state's control of exchange rates will require market intervention. If, despite exchange controls, there are net sales of rand pushing the exchange rate down below the target, the government will have to become a buyer and sell dollars in exchange for rand in order to bolster the demand for rand. And, as at present, may buy and sell in the futures market. If the government attempts to keep the exchange rate systematically above what it would otherwise be, those operations create a permanent drain on the country's budget and foreign exchange reserves, and they can create difficult technical problems for monetary policy.

Keeping the exchange rate systematically above the level private demand and supply would generate has also led many African countries to a situation where a
substantial, illegal, parallel market in foreign currency develops with exchange rates well below the official rate. Then the official rate becomes ineffective and the parallel market’s exchange rate distorts the pattern of trade and business.\(^{(33)}\)

These problems have become a reality for many developing countries which have attempted to keep their exchange rate higher than private demand and supply would have placed it over long periods. They have been used by the International Monetary Fund (IMF) and World Bank when imposing large devaluations as part of stabilisation and structural adjustment programs. Their argument is that devaluation brings the rate more into line with market forces and in many cases the policy has been to end state intervention altogether. For example, in Zambia and other countries the IMF have made the state sell foreign exchange to the highest bidder at auctions so the state has no say in its price over a broad range.

How can the future South African state take control over the exchange rate without running into similar problems? It is feasible as long as a two-prong strategy is adopted. One is to use exchange controls to manage the amounts of foreign exchange the private sector is entitled to buy and sell. The other is to ensure that the exchange rate for imports and exports is not held rigid but is adjusted flexibly to ensure that, although its level may be different from the level that would result from unrestricted market forces, it is moved from time to time in the same direction as it would be moved by the demand and supply of currencies resulting from unrestricted imports and exports. That second prong helps to ensure that a significant parallel market does not develop. If, for example, South Africa experiences a worse inflation than its trading competitors, the commercial exchange rate should be adjusted downward to compensate partially or fully. If it is not, exports become too dear, imports become too cheap (but, because of foreign exchange controls, not available to all who want them), and there is a strong incentive for people to pay more than the official rate for foreign exchange in order to import unofficially.

**Control of the Financial System**

Foreign exchange controls and state regulation of the exchange rate are severe limitations over the activities of banks and other financial institutions. They give the state control over the crucial links between South Africa and the rest of the world that would otherwise be shaped by those powerful market operators. The state also has to take control of another crucial price in the economy that would otherwise be determined by the banks and financiers, the rate of interest. That means the whole set of different interest rates paid by borrowers and received by lenders and depositors.

The interest rate has a pervasive influence on the economy. Low interest rates could deter people from placing their savings in banks or lending them to the state. High interest rates can make it costly for firms to finance inventories, could deter them from investing in plant, can lead to firms going out of business or putting up prices (contributing to inflation), and can place a great strain on the state’s budget since interest payments on state bonds will be high.\(^{(34)}\) Because of its potentially key role the interest rate in a mixed economy has to be the responsibility of the state.

In setting interest rates the state is not only controlling the price of credit. Ultimately it is taking over from the financial system control over the amount and direction of credit. If the government sets the interest rate lower than it would be if banks and financial markets were unrestricted borrowers will have a greater demand for credit than lenders are willing to lend so the available credit will have to be rationed. The government will have to direct, for example, that export industries or rural cooperatives or other priority sectors should have access to the cheap funds while others should have the availability of funds restricted or should have to pay higher interest rates.

Many governments have held down interest rates and in times of inflation yields have sometimes become negative in real terms. These policies have been criticised on the
grounds that the yields on savings and the cost of capital to borrowers that higher or free market interest rates would generate would lead to better saving and investment decisions (35).

The idea of the mixed economy is quite different. It is that the state's direction of credit flows and priorities, which goes hand in hand with controlling interest rates, is the best way to guide economic development. The resulting expansion of investment in some sectors and its restriction in others is better than that which would be achieved by free market forces; the latter, for example, may lead to borrowing at high rates to finance the building of luxury housing while what is needed is low cost housing or investment in new factories. Controlling the direction of credit flows is simply another aspect of the state's control of the economy's surplus to ensure it is used to reconstruct the economy in a way which overcomes apartheid. Other countries have similarly used state control of credit to ensure investment is geared to a major restructuring for growth; the successful examples range from the centrally planned Soviet economy to the capitalist-oriented mixed economy of South Korea (36).

An increase in state control over credit and foreign exchange would be a severe limitation of the banks' freedom of action. At present South Africa's financial system is highly complex and sophisticated; it is more like London's financial system than that of a developing economy. (37) At its heart are transactions on the Johannesburg Stock Exchange, on the money market and on the foreign exchange market which are not directly connected to production and economic growth. Most stock exchange business does not directly provide credit to enterprises wanting funds for investment in physical assets, most money market activities do not directly generate or redirect new flows of funds, and much foreign exchange activity is speculative and not generated by the needs of foreign trade. The scope for banks and financiers to profit from such free floating, purely financial activities (often attracting the term 'speculative' or 'casino type') will be limited by controls over credit and foreign exchange, and they will be more limited the more comprehensive those controls are.

This has an important bearing on the question of nationalisation. Why nationalise firms if the same objectives can be achieved through controls and regulation? The fact that controls will reduce bankers' profits by restricting the scope for some of their most profitable operations shows the limits of private ownership with regulation. Privately owned banks are, of their nature, bound to attempt to restore their profitability, and that will lead them to try to evade the controls. This will not necessarily imply illegal activity, for the history of controls over credit in other countries (including the United States and Britain) has shown that banks are adept at financial innovation, inventing new financial instruments and operations which lie outside the controls. At times it could also include illegal activity; for example, at times of economic or political instability banks could well profit from facilitating illegal exports of capital. Whether legal or illegal the potential for private banks and financial institutions to increase profits by undermining the system of controls suggests that public ownership may be a necessary complement to controls rather than the latter being an alternative to nationalisation.

3. Taxation and Budgetary Policy

Under apartheid, state expenditure has grown systematically, reaching approximately 40 per cent of Gross Domestic Product (GDP) in the 1980s, and taxation has grown to reach almost one quarter of GDP. After democracy is achieved that large budget will have a major role in controlling the mixed economy. It will have a role in microeconomic decisions and the redistribution of resources, and it will be important in achieving macroeconomic balance.
The first role, microeconomic intervention, will mean that taxes, subsidies, and state spending are changed and used to redistribute resources to meet social and economic goals. This will require a complete restructuring of the tax and expenditure system in order to ensure that the taxes paid, the benefits received, and public services like education are not divided on racial lines. (That, in turn, will require a major change in the systems of local government finance). And the progressivity of the tax and benefits will have to be brought into line with the new government's policies toward reducing inequalities in income and wealth.

In broad terms those uses of the budgetary system means the state is using taxation to gain control of part of the economy's surplus and direct it toward the priority uses. This strategy again leads some to argue that nationalisation is unnecessary because the state does not need to own enterprises in order to control the surpluses they generate. Again, though, there are grounds for thinking that public ownership of big businesses may be necessary in order to ensure the tax system works properly instead of thinking that taxes are an alternative to it.

One problem is that high taxes would blunt the profits that private firms rely upon whereas transfer of surplus to the state would not affect the enterprises' driving force in the same way if they were publicly owned. Another is that taxation of profits can drive firms to invent even more ways to avoid taxes. The greatest difficulty facing the Ministry of Finance will be ensuring that the great multinationals operating in South Africa do not transfer their profits abroad by false invoicing and other types of false transfer pricing. Transfer pricing is used by multinationals all over the world to evade taxation in countries where it is relatively high, or to evade foreign exchange controls and other restrictions.

(38) It is highly effective and will be very difficult for South Africa's tax officers to counter. But taking effective control over multinationals' South African operations through nationalising them would help to prevent firms shifting their profit abroad and out of reach of the tax system.

The second role of the state's budgetary system is to ensure overall macroeconomic balance in the economy. In certain circumstances a large budget deficit can worsen the risk of inflation, lead to uncontrolled expansion of the amount of money in the economy, and worsen the pressures creating a balance of payments deficit. These are symptoms of imbalances between demands and supplies in various sectors, or between finance and production. They can generate both economic and political instability which undermine the government's strategy and priorities as several socialist states with mixed economies have found.

(39)

One response is to view state budget deficits, or deficits in the current account of the state budget as always and inevitably the cause of such instability so that the main task of budgetary policy is to reduce these deficits. That view can be seen at times in the prescriptions of the World Bank and International Monetary Fund, but it is faulty because it neglects structural imbalances and concentrates all policy on the overriding goal of reducing the budget deficit. The experience of Zimbabwe shows that such imbalances need not result from budget deficits since the combination of foreign exchange controls, high private sector savings, and effective financial intermediaries have made it easy to finance the budget deficit without worsening other imbalances.

Nevertheless the state's budget will have a central role in maintaining macroeconomic balance in the future mixed economy. Although reduction of the deficit should not be the overriding goal of policy, a strategy based on the assumption that the size of the budget deficit is irrelevant would not be appropriate to the mixed economy. Instead, the budget deficit should be seen as an active policy instrument. The state's job will be to determine the appropriate level of the budget deficit in relation to the prospective volume of private saving and investment, bearing in mind that the amount of private saving and investment, and the degree to which savings can be mobilised to finance the state deficit are themselves variables that the state can and should act upon.
4. Planning

All economies have some type of planning within them, either state planning or private firms' plans or, more usually, both. In the mixed economy envisaged for South Africa's future state planning will inevitably have a role; that much is implied by the state having the overall responsibility for the direction the economy is to take. However, the question is what type of planning will the state use.

At one extreme is the centralised, directive planning of every sector on the basis of material balances that characterised the Soviet Union for half a century from the 1930s. But there are many other types of planning that enable the state to retain overall influence while being consistent with a mixed economy and some have been used by socialist governments while others have been used in capitalist countries (40).

The roles outlined above for market prices, controls, and taxation add up to one type of planning framework. Under it the state has responsibility for the overall direction of accumulation or the use society makes of the economic surplus. That includes responsibility for ensuring that the economy does produce an investible surplus, or, in other words, deciding on the appropriate balance between society's consumption and its investment and planning to avoid macroeconomic imbalances between society's demand and its aggregate supply capacity. Controls over the markets and prices for food, foreign exchange, and credit, plus taxation policy give it that power. But within that framework the majority of prices in the system would result from market forces, and private enterprises would make their own production decisions. (41)

That type of planning system can ensure that society's resources are directed to the areas corresponding to its priorities. If it is decided that the priorities are to invest in the social infrastructure (schools, hospitals and other needs), in new export oriented industries, or in new agricultural developments, for example, that type of broad sectoral planning can achieve the goals while leaving everything to free market forces could not. At the same time, however, the absence of detailed, centralised planning covering every enterprise helps to overcome the difficulties inherent in planning. It leaves scope for the initiative and flexibility that private enterprise can display, it leaves room for price adjustments to help prevent the worst market imbalances, and it reduces the burden a comprehensive planning system places on administrative resources.

None of that means that such planning is problem-free. Advocates of market liberalisation would argue that it is harmful because any controls over key prices and intervention in key markets must lead to a less successful economy than a price system where private market forces determine the allocation of resources. That argument is false. Although planning in a mixed economy is not problem free the direction the economy would take as a result of untramelled market forces would have much greater costs and disadvantages. That view has been validated by all countries that have achieved major economic and social restructuring in modern times.

5. Development of the Mixed Economy

This paper has outlined the structure of a mixed economy and some of the issues that will face a future democratic South Africa in building a new mixed economy. But the new economic system will not all be built immediately and the economy will face different problems at different stages while the system is being built. That raises two questions: what will the most urgent economic measures be after the transfer of power; and in what directions might the mixed economy develop?
The first question is sharply crystallised when phrased as "what will the new democratic government have to do on Day One of the new era?". Changing the tax system or developing the plan framework take time, but some tasks will be urgent. For example, tightening foreign exchange controls and restricting the financial system's operations will be necessary immediately in order to stem the flight of capital that will have already started. At such a precarious moment it may even be necessary to suspend the operation of financial markets although such tight restrictions should be seen as initial measures, open to reassessment, rather than becoming enshrined as the first building blocks of the future mixed economy.

It will also be urgent for the state to win the confidence of private capital as well as the workers. That often expressed need is a problem, for 'confidence' is undefined, and, claiming that such measures are needed to restore their confidence, business leaders can push the government further and further to adopt policies which give business the equivalent of a free market system. The best way to deal with the problem will be to confront it head on by the state taking the initiative in defining confidence building measures and some of these will have to be taken at an early stage. For example, a clear definition of policies toward nationalisation and the terms of compensation should be promulgated soon after the transfer of power to prevent uncertainty and remove the basis of destabilising rumours.

The second question is, like the first, a recognition of the fact that no mixed economy is a comprehensive, fixed system. As well as being built in stages, once it is substantially built the new mixed economy in South Africa will be subject to great pressures for change. On the one hand there will be forces pushing it toward a more socialist system with more public ownership and more detailed planning. On the other hand, as many governments have found during the 1980s, there will be powerful forces pushing toward weakening the role of the state and freeing markets to give greater scope for private capital.

Although the underlying forces pushing in each direction are complex and deep rooted, each is likely to find its rationale in the difficulties of market intervention in a mixed economy. The problems of controlling private market forces can lead toward socialist policies of greater public ownership or toward capitalist advocacy of abandoning that interventionist strategy. It is beyond the scope of this paper to speculate on those future changes. The only point to note here is that the mixed economy is not a fixed system but changes as it is shaped by economic and social forces, and, equally, the state should treat it as an adjustable economic program rather than a rigid system.

That issue brings us back to the point made at the beginning of the paper: that there are different types of mixed economy, some of which are oriented toward capitalism while others are oriented toward socialism. It raises the question of what the difference is between those two broad types, and that is a question which needs urgent clarification if it is the case that the perspective of the ANC and the Mass Democratic Movement favours a socialist orientation in the mixed economy. To conclude this paper I would suggest three broad criteria for distinguishing between those types. The first is which classes hold effective economic power (either through their political representation in the state or directly through organisations such as trade unions and the supervisory boards of firms). The second is what direction does the economy take in the use of its investible surplus; are all decisions driven by profit criteria or are investments undertaken on a significant scale to meet social needs and non profit criteria. The third is the extent to which the economy simply responds to the pressures of the world market and world capital flows or to which it maintains enough autonomy to shape both its internal development and its place in the world economy.

Laurence Harris
July 1984

(2) EROSA South Africa's Agriculture EROSA Economic Assessment Paper 7, June 1988

(3) ANC Statement 8 January 1987

(4) Similarly W European adherence to mixed economies was a political stance generating legitimacy in the cold war context

(5) Merle Lipton is one of many authors who have documented this process. In relation to building economic power through control of the state from 1948 she writes: "The Nationalists used their powers of patronage to favour Afrikaans business interests. Central and local government authorities shifted their accounts from English to Afrikaans financial institutions such as Volkskas. Government contracts were steered to Afrikaans companies. The IDC (Industrial Development Corporation), state instrument for encouraging expansion of manufacturing, entered into joint enterprises with private Afrikaans companies like Federale Kunsmis. The expanded state sector and parastatals such as Iscor, Foscor, and Sasol were used as training grounds for Afrikaans entrepreneurs." Lipton, M., Capitalism and Apartheid: South Africa 1910-1986. Aldershot, Wildwood House, 1986, 283.

(6) See, for example, Sender, J and S.M. Smith The Development of Capitalism in Africa, London, Methuen, 1986

(7) EROSA "Long Term Business Strategies", 1988


(9) EROSA South Africa's International Trade & Trade Policy. EROSA Economic Assessment Paper 1 June 1987


(15) EROSA South Africa's Electricity Industry and Policy EROSA Economic Assessment Paper 3, June 1987


(17) Innes, D., Anglo American and the Rise of Modern South Africa London, Heinemann, 1984, Chs. 6,7,8


(19) See, for example, the seminal contribution, Williamson, O.E., The Economics of Discretionary Behaviour: Management objectives in a Theory of the Firm, Englewood Cliffs, Prentice Hall, 1964


(24) Veljanovski, C., Selling the State, London, Weidenfeld and Nicolson, 1988

(25) For an instructive example concerning the 1977 nationalisation of shipbuilding and aerospace in Britain see: Veljanovski, C., Selling the State, London, Weidenfeld and Nicolson, 1988, 72-75


(27) This view finds frequent expression in the pages of the Financial Mail

(28) This is not to deny that minimum wage rules pose sharp dilemmas because the alternative type of employment takes time to construct. A much publicised illustration comes from Zimbabwe in the mid 1980s where a raising of minimum wages for domestic servants led rich families to dismiss servants surprisingly widely: social goals favoured the decline of domestic service, but in the absence of new types of employment this caused hardship for many. However, those problems do not outweigh the benefits minimum wage laws give in the form of protection from abuses.

(29) EROSA South Africa’s Agriculture, EROSA Economic Assessment Paper 7


(31) Supporters of laissez faire would argue that this would lead to South Africa producing things it could buy more cheaply from abroad, thereby losing the benefits of comparative advantage. However the benefits of comparative advantage are open to many theoretical criticisms both in pure models and in relation to the actual world economy. See, for example, Edwards, C. The Fragmented World, London, 1986.


(34) For two viewpoints that oppose each other through emphasising different selections of these effects see Fry, M.J., Money, Interest and Banking in Economic Development, Baltimore, Johns Hopkins, 1988 and Taylor, L., Structuralist Macroeconomics, New York, Basic Books, 1983. The general view taken by Fry is also a theme of the World Bank in World Development Report 1989.


