

**STATE PROVISION OF SOCIAL SECURITY: SOME THEORETICAL, COMPARATIVE AND
HISTORICAL PERSPECTIVES WITH REFERENCE TO SOUTH AFRICA**

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Declaration

I, the undersigned, hereby declare that the work contained in this thesis is my own original work and has not previously in its entirety or in part been submitted at any university for a degree.

Signature:

Date:

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SUMMARY

Societies are imaginative when setting up non-market responses to deal with insecurity and deprivation. The result is that there are many different services (such as income support, personal welfare services, education, health care and housing) catering for the very general objective of providing security. In addition, a variety of institutions can, and do, provide these services. While the traditional theory of public goods and externalities does not provide clear justification for increased state provision of these services (in contrast to market, family, community and employer provision), increased state provision and coordination do seem to be a clear trend both from historical and comparative perspectives. Furthermore, this increased role of the state can be interpreted as representing a reassignment of the traditional roles of other institutions (noted above) to the state.

The above trend can be rationalized on economic grounds as being the result of the changing nature of societies which affects the viability of different institutions in the provision of social services. Economic development affects the cost of production of social services by different institutions differently. Taking a more in depth view of the costs of production, there are grounds to believe that the comparative advantage of the state in the provision of these services grows as economic development takes place. "Nationalization" of the provision of services providing social security as economic development takes place can thus be seen as a stylized fact of economic development, and as representing an adjustment which can be efficiency enhancing. It is from this perspective that the issue of the affordability of increased social provision in developing countries should be approached.

The South African experience provides further evidence of the increasing pressures, over time, for greater state provision of social security. The experience also, however, furnishes examples of how in a specific situation these forces can be obstructed by specific political institutions and how social policy can fail to adjust to changing circumstances. This resulted in the current unequal access to social services, the inequality of benefit levels and the incomplete coverage of risks faced by people in the South African economy.

In spite of the incompleteness of the South African social safety net and the inequality which it reflects, fiscal and macroeconomic constraints seem to limit the possibilities for extending the safety net and for making it more just. These constraints imply, and have resulted in, the lowering of benefits to the previously privileged and an adjustment in the nature of benefits, leading to a focus on lower cost services which offer high rates of return. Current demands and envisaged changes in the sphere of social policy, especially those surrounding a national pension system with universal coverage and extensive special employment programmes, however, indicate the strength of the forces making for increased "nationalization" of income support and other social services. How the perceived fiscal constraints can be reconciled with the alleged rationality of a growing role for the South African state in social provision remains a question. The very general response of this study needs to be evaluated by looking in more detail at specific programmes and specific aspects of insecurity.

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OPSOMMING

Samelewings is verbeeldingryk met die daarstelling van nie-markgeoriënteerde instellings om armoede en 'n gebrek aan bestaanssekerheid die hoof te bied. Daarom is daar 'n verskeidenheid dienste (soos inkomsteversekering, persoonlike welsynsdienste, gesondheid, onderwys en behuising) om die baie algemene behoefte aan bestaanssekerheid aan te spreek. Daar is dan ook 'n hele verskeidenheid instellings wat hierdie dienste voorsien, en kan voorsien. Alhoewel die tradisionele teorie van publieke goedere en eksternaliteite nie voldoende regverdiging vir groeiende staatsvoorsiening van hierdie dienste (in teenstelling met verskaffing deur markte, families, gemeenskappe en werkgewers) daarstel nie, blyk dit dat toenemende staatsvoorsiening uit 'n historiese sowel as vergelykende perspektief 'n duidelike tendens verteenwoordig. Verder kan die groeiende rol van die staat in hierdie sfeer ook gesien word as die gevolg van die hertoewysing van tradisionele rolle van ander instellings (soos hierbo genoem) aan die staat.

Hierdie tendens kan op ekonomiese gronde gerasionaliseer word as die gevolg van die veranderende aard van samelewings wat die ekonomiese lewensvatbaarheid van instellings in die voorsiening van sosiale dienste beïnvloed. Ekonomiese ontwikkeling affekteer verskillende instellings, en daarom die produksiekoste van sosiale dienste deur die instellings voorsien, op uiteenlopende maniere. Indien 'n breë konsep van produksiekoste gebruik word is dit moontlik om te argumenteer dat die staat se vergelykende voordeel in die voorsiening van hierdie dienste toeneem soos 'n land ekonomies ontwikkel. "Nasionalisering" van die dienste wat sosiale sekuriteit daarstel kan dan gesien word as een van die basiese neigings wat met ekonomiese ontwikkeling geassosieer kan word, sowel as 'n aanpassing wat ekonomiese doeltreffendheid verbeter. Hierdie perspektief is die gewenste een wanneer die kwessie van die bekostigbaarheid van toenemende sosiale voorsiening in ontwikkelende lande aangespreek word.

Die Suid-Afrikaanse ondervinding in hierdie verband verskaf verdere getuienis van toenemende kragte, oor tyd, wat groeiende staatsvoorsiening van sosiale sekuriteit (sekerheid) in die hand werk. Die ondervinding voorsien egter ook voorbeelde van hoe hierdie kragte deur spesifieke politieke instellings omvorm kan word en hoe sosiale beleid kan agterbly by veranderende omstandighede. Hierdie faktore het aanleiding gegee tot die huidige ongelyke toegang tot sosiale dienste, ongelyke voordele en onvoldoende dekking teen die risiko's wat die Suid-Afrikaanse ekonomie inhou.

Ten spyte van die tekortkominge van die Suid-Afrikaanse stelsel van bestaansbeveiliging en die ongelykheid daarin gereflekteer, kom dit voor asof fiskale en makro-ekonomiese beperkinge die moontlikhede om die stelsel te omvorm streng beperk. Hierdie beperkinge impliseer, en het aanleiding gegee tot, 'n verlaging van die voordele van die bevoorregte groepe en 'n aanpassing van die aard van voordele, veral in die rigting van goedkoper dienste met steeds hoër opbrengskoeerse. Huidige eise en voorsiane veranderinge in die sfeer van sosiale beleid, veral ten opsigte van 'n universele stelsel van sosiale pensioene en spesiale werkskeppingsprogramme, dui egter op die sterkte van die kragte wat toenemende "nasionalisering" van sosiale dienste in die hand werk. Hoe die klaarblyklike fiskale beperkings te versoen is met die beweerde rasionaliteit van 'n groter rol vir die Suid-Afrikaanse staat in sosiale voorsiening bly 'n vraag. Dit is nodig om die breë perspektief van hierdie studie te evalueer deur in meer detail te kyk na spesifieke programme en spesifieke oorsake van 'n gebrek aan bestaanssekerheid.

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INTRODUCTION

In a recent survey of patterns of structural change accompanying the process of economic development, Syrquin remarked that "(t)he importance of institutions and institutional change for modern economic growth is increasingly being recognized". He concluded the survey by saying that "(t)he time may be ripe for trying to establish the stylized facts of institutional change and their role in the structural transformation (of an economy)".¹

A number of other economists working in the field of development have also recently emphasized the importance of institutions² in explaining development and underdevelopment. Stiglitz argues that disparities in levels of living and growth rates between rich and poor countries "can be attributed ... to how individuals (factors of production) interact, and to the institutions which mediate these interactions".³ He then continues by focusing on the market as one of these institutions. Toye states that "... development economists must locate themselves by four bearings - economic behaviour, technology, institutions and politics". Specifically, he maintains that the possible effect of technological progress and the likelihood of its implementation to eradicate poverty is dependent on, or is constrained by, the specific types of institutions found in a society.⁴ This view is echoed by Bruton: "A broader approach to understanding an economy recognizes that the non-market social institutions constrain or, more generally, affect how the market works, ...". A specific example which he notes, is the fact that the extended family as an institution serves as a form of income support in traditional poor societies. As such, the institution provides "utility". The disruption of this system is an important cost of development and, except for the fact that it might lead to hardship, could have an effect on incentives and resistance to change.⁵

On a more general level Sen has argued that a person's entitlement to goods and services is not only dependent on market exchange, but also on entitlements which derive from the

¹Syrquin (1988:267-268).

²Institutions can be defined as mechanisms through which people interact.

³Stiglitz (1989:197).

⁴Toye (1985:9 and 11).

⁵Bruton (1985:1105-1106).

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specific "mode of production" in action (eg. capitalist or socialist) and from goods and services which are provided by the state.⁶ He specifically maintains that the institution of modern social security, rather than the high level of average income, is to a large extent responsible for the absence of regular famines in developed countries.⁷ Elsewhere he views the problems of developing countries, and the high levels of poverty, as resulting from the complete dependence of people on markets, because the process of capitalist development in its early stages destroys traditional systems of income support (institutions such as the extended family) without immediately putting something else (eg. modern social security) in its place.⁸

Following from these leads, this study analyzes some of the interrelationships, and the complexities of the interrelationships, between economic development and the growth of state provision of social security. The relative importance of such state provision of social security in developed societies and the urgency of the search for instruments to alleviate poverty in poor countries, serve as a first motivation for this study.

In addition to focusing on conceptual, comparative and theoretical issues related to the role of the state in this sphere, the history and current situation with regard to such provision in South Africa are also analyzed extensively. Because of the inequalities and inadequacies in terms of access to social services and the extent of deprivation in South Africa, the transformation of institutions providing social services is of significant importance. The analysis of the South African situation in the light of international experience and theoretical principles makes a clearer assessment of possibilities and constraints in this regard possible.

Besides establishing some interrelationships between the different institutions providing social security and economic development and confronting some of the issues related to state provision of social security in South Africa, this study also touches on a number of more general issues. These relate to :

⁶Sen (1981:4-6).

⁷Sen (1981:6).

⁸Sen (1980:31).

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the conceptualization of the provision of social security and social services in the development process;
the reality of the alleged trade-off between growth and distribution, equity and efficiency; and
the proper role of the state, and the justification of this role, in social policy and the economy.

The study is divided into two parts. Part 1 deals with conceptual and theoretical matters and provides a comparative perspective on state provision of social security. Chapter 1 explains what is meant by social security. The focus is on the economic characteristics of the goods and services providing social security and the diversity of institutions and mechanism responsible for its provision. The chapter concludes with a hypothesis about the relationship between the level of economic development of a country and the role of the state, as one of these diverse institutions, in the provision of social security.

Chapter 2 attempts to establish the accuracy of the postulated relationship by looking at different sets of information. As a result of the non-availability of direct evidence indirect approaches have to be used. Although there is not conclusive evidence, the information on changing sources of transfers, changing state expenditures, and institutional change is in line with the offered hypothesis. Chapter 3 offers an explanation of the observed tendency. The explanation in terms of changing supply and demand forces also permits an assessment of the rationality of the trend.

Part 2 consists of an analysis and appraisal of state provision of social security in South Africa. This is related to Part 1 in two ways. Firstly, it provides further illustrations of some of the aspects of social provision identified in earlier parts of the study. Secondly, the conclusions from the comparative and theoretical sections are used to inform the appraisal of South African provision and envisaged future trends.

Chapter 4, the first in Part 2, provides a historical perspective on selected aspects of social provision of social security in South Africa before 1910. Some of the early systems of provision are described and some of the pressures influencing the role of the state are discussed. Chapter 5 evaluates social expenditure in South Africa after 1910 by looking at

the unfolding of state expenditure in different economic and functional categories. In contrast to the focus on aggregate expenditures in Chapter 5, Chapters 6 and 7 provide a historical overview of the origin and development of the different programmes and an appraisal of these programmes in the light of common characteristics of advanced welfare states. Some historical patterns and salient characteristics of social provision are identified. In Chapter 8 the appropriate and likely policy directions with regard to social provision in South Africa are examined.

Chapter 9, the conclusion, provides an outline of the central arguments of the study and notes some of the more general implications of the argumentation. In closing, a few areas worthy of further research are identified.

PART I THEORETICAL AND COMPARATIVE PERSPECTIVES

CHAPTER 1 CONCEPTUAL ISSUES AND HYPOTHESIS

1.1 Defining social security

One of the main problems involved in addressing the issue of changing state provision of social security is that it is difficult to find an appropriate definition of social security. This difficulty results from the fact that a great number of meanings have been attached to the term.¹ Some of these definitions are inadequate when analysing the historical evolution of state provision of social services.

It is customary to view social security as programmes for the provision of certain goods, services and transfers, managed by the state for its citizens. Such a definition then focuses on the instruments used (the type of programmes) and the agency responsible for managing and financing the programme. Within this conventional and narrow framework a typical dictionary definition of social security is "government provisions for helping people who are unemployed, disabled, etcetera".² The International Labour Office requires of a social security scheme to "have been set up by legislation" and to be concerned with the provision of income maintenance, income supplements or medical care and to be administered by "a public, semi-public or autonomous body".³ Barr limits the concept even further by using it to refer only to cash payments in terms of the British national insurance system and certain other non-contributory cash benefits financed from general government revenue.⁴ In the United States of America social security is ordinarily used in the narrow sense as pertaining to the state-run pension system financing retirement.⁵

When used in this narrow sense the concept "social security" refers to certain programmes which are associated with the Western European welfare state and is seen as part of a wider set of social and welfare policies. Social security, as part of the machinery of the welfare

¹See Kaim-Caudle (1973:6-9).

²Oxford Advanced Learner's Dictionary of Current English (1974).

³International Labour Office (1988:1).

⁴Barr (1987:5-7).

⁵See Diamond (1977:275) and Kotlikoff (1989:231).

state, is then taken to refer to "a specific set of policies in a limited set of nations".⁶ In this context the compulsory systems of social insurance to protect against unemployment, illness and loss of income after retirement, found in Western European states are the best known. This restricted view of social security can probably be attributed to the extensive formalization and visibility of government provision of related services in the Western European economies. The considerable role of governments in these countries in the provision of social services, relative to the role of other institutions in this field, tends to make other systems of provision appear insignificant.

In this study a wider definition of social security is adopted. The term is not defined with reference to the instruments used and government participation but in terms of the objective of the provision and the nature of the entitlements arising from the schemes. Because many non-government initiatives share the same objective as government provision of services providing social security, these should also be included in the definition of social security. Social security is then taken to refer to "an objective pursued through public means" and not "a narrowly defined set of strategies".⁷

Three aspects of such a wider definition in terms of objectives need to be clarified. These are:

- what is meant with security as an objective;
- what can be understood as being "public" or social means;
- what the types of entitlements are which these social security measures give rise to.

Providing security can in this context be understood as protecting people from "deprivations and vulnerability".⁸ The objectives of the relevant measures are then to ensure that people have access to a minimum set of commodities which would keep them out of poverty and

⁶Ringen (1987:4).

⁷Drèze and Sen (1989:16).

⁸Drèze and Sen (1989:15).

shield them from the impoverishing effect of certain eventualities. In terms of Sen's entitlement approach⁹ social security measures aim to protect people from sudden shifts in their trade and production entitlements (e.g. as a result of floods, unemployment, recession and inflation) and to stave off poverty in the cases of inadequate resource endowments, especially the inability to labour or labour "adequately". (e.g. being mentally retarded or otherwise incapacitated for work, or not being able to earn adequately from work).

It is important to note that deprivation and poverty, as elements of a definition of social security, need not be defined in absolute terms. This is important because defining poverty in relative terms makes it possible to accommodate the views of those who see equality (or fairness) as the most important objective of the welfare state and, by implication, also of social security provision.¹⁰

Many links have been established between absolute and relative poverty, most notably in the work of Amartya Sen. Sen has argued that "there is an irreducible core of absolute deprivation in our idea of poverty which translates reports of starvation into a diagnosis of poverty without having to ascertain first the relative picture".¹¹ It should, however, be realized, as Sen has argued, that such absolute deprivation must be defined in the sphere of capabilities (that is in terms of what a person can do or attain, such as not to be hungry), and not in the sphere of income or goods and services. If it is realized that absolute deprivation in the sphere of capabilities is related to relative deprivation in the commodity sphere¹², the absolute/relative distinction need not give rise to alternative approaches.

Alternatively, absolute poverty and relative deprivation can be linked through Ringen's interpretations of the concept of "fairness/inequality", or through the Weberian concept of "life chances". Fairness, as Ringen points out, can be defined in different ways with a focus on and concern with absolute deprivation implying a "weak interpretation" of fairness.¹³

⁹Sen (1981:1-8) and Drèze and Sen (1989:10-11).

¹⁰Flora (1986:xv) and Ringen (1987:7).

¹¹Sen (1981:17).

¹²Sen (1983) and Dilnot (1989:243).

¹³Ringen (1987:8).

Alternatively, it should be remembered that people's life chances, and therefore also their insecurity, consist of different aspects or components. The relative importance of these aspects might change as society or people change. Three aspects of people's life chances have been identified, namely

- having (which is the opposite of poverty and thus refers to being above some "poverty line");
- being (the opposite of alienation); and
- loving (the opposite of anomie).¹⁴

At low levels of living (in poor societies) equalizing life chances may lead to a focus on having, for example, ensuring adequate food supplies and medical care. With this aspect increasingly catered for, "more modern" ailments such as alienation and anomie need to be addressed. As a result of these possible links between the two concepts of poverty it is not necessary to be overly insistent on which one is relevant in the context of social security provision. Under some conditions absolute deprivation may be the concern and under others relative poverty. If it is then stated that the provision of social security takes place to prevent deprivation, this can refer to the provision of food to the malnourished in developing countries as well as to the provision of home visits to the elderly in more developed societies.

With "security" defined as an objective, it is necessary to explain what is understood by social in "social security". In the definition of Drèze and Sen (above) "social" is taken as referring to the provision of security through social or public means, thus defining the agency responsible for provision. "Public means" is taken, however, to refer to more than government action and to include the actions of certain other groupings in society. Private action can be seen as the "pursuit of a better life for oneself and one's family", or action which "aims directly at the production and accumulation of private wealth".¹⁵ Public action

¹⁴Flora (1936:xv). He explains as follows: "having" basically refers to the "level of living", "being" points to potential for "self-actualization" and "loving" is related to "solidarity" and "belongingness".

¹⁵Hirschman (1982:7).

refers to collective behaviour or action by, and in the interest of, some group or community.¹⁶ Normally the state is regarded as the agent of provision in public action and firms as the agents in markets. There are, however, a large number of agencies intermediate to the state and firms. These organizations, such as families, cultural, religious and community groupings, can also provide security in the sense defined above. As a result of the collective nature of such provision the resulting security must also be called *social* security. Together with a wide definition of security, the focus should furthermore be on a large number of institutions and social actors which can conceivably provide security.¹⁷ This point is taken further in Chapter 2.

In order to keep the concept social security from becoming too wide (and thus useless), and to further distinguish between public and private means, it is useful to look at the type of entitlements¹⁸ which social security measures give rise to. An acceptable way of limiting the meaning of the concept of social security is by using it to refer to security resulting from entitlements that are not trade or production based (i.e. the entitlements are not legal rights of ownership acquired through market exchange)¹⁹. Social security is then viewed as encompassing security derived from "extended entitlements"²⁰, or as resulting from entitlements provided by the state or other non-profit organizations. Social security is distinguished from economic security with economic security referring to security derived from market exchange and based on "legal rights".²¹ Instruments of social security are, in this

¹⁶See Hirschman (1982:6), whose definition focuses more on motivation than on who or what organisation is responsible for the action.

¹⁷See Drèze and Sen (1989:17-19).

¹⁸The "*entitlement approach*" is derived from Sen. The basic concepts related to the approach used here are discussed in Sen (1981) and Drèze and Sen (1989).

¹⁹These types of "transactions" are probably what Scott (1976:6) has in mind when he refers to "*social exchanges*".

²⁰Those are entitlements based on socially sanctioned rights or well-established conventions such as parents looking after their children and vice versa at other stages. See Drèze and Sen (1989:10-11) who define such entitlements as "sanctioned by accepted notions of legitimacy".

²¹Drèze and Sen (1989:10). Here the present analysis seems to differ from that of Drèze and Sen. They refer to the market as a "*public institution*" (1989:13, my italics). This wide definition of "social" and "public" makes social security as a concept useless because it is

definition, closely related to transfer payments or transfers in kind ("free" goods).²² Transfers can be defined as the receipt of income without a contribution to current output.

Turning to the instruments of social security it should be clear that the wide definition of the concept, in terms of objective and a large number of possible suppliers, brings a large number of social practices within our ambit. Two broad types of instruments can be distinguished, namely those aimed at "protection" and those aimed at "promotion".²³ Protection refers to the prevention of a drop in the level of well-being while promotion aims at the expansion of "basic capabilities" and can be viewed as more forward-looking than protection.²⁴ Providing an income (or accommodation and food) during a period of unemployment is a form of protection, while compulsory free education can be seen as promotion as it advances future economic security. Health services, housing and personal social services can also be seen as services which are relevant to people's social security and which are often provided through public or social means. Health services will then also be promotional as they ensure future productivity, while housing and welfare services provide examples of a complex mixture of protection and promotion.

An intricate relationship exists between these two types of instruments. Under some conditions they can be seen as complementary services. Protecting children from hunger through school-feeding schemes may in addition to its impact on nutritional status (protection from hunger or low consumption), have an effect on the success of schooling and

difficult to see what can then be classified as "non-public" means. Social security would then have to be seen as security resulting from any (inter-)action. The definition offered here is more in line with that of Alber, *et al.*, who view the welfare state or social security as "a measure which encompasses the replacement of commodified resources" or which succeeds in "replacing market and employer authority" (1937:461). This aspect of social security, as attempting to circumscribe the impact of market forces, can also be found in the often quoted definition of the welfare state by Asa Briggs [quoted in Gough (1989:276)]: "A 'welfare state' is a state in which organized power is deliberately used in an effort to modify the play of market forces...".

²²Lampman and Smeeding (1983:48) give a useful definition of transfers as a "receipt of money for which a less than reciprocal specific good or service is exchanged". The definition can also be broadened, as they indicate, to include the receipt of goods and services without paying the "full value".

²³Drèze and Sen (1989:16).

²⁴Drèze and Sen (1989:16).

thus future productivity and security. Unemployment insurance, which protects against unforeseen contingencies, promotes future security through protecting human capital and allowing other family activities such as the production of food and educational services to continue during a spell of unemployment. Educational inputs may, for example, make an impact on nutritional and health care programmes, which are aspects which can also be addressed more directly and have an important bearing on social security.²⁵

In spite of this complementary relationship certain cases seem to indicate that the one type of instrument might act as a substitute for the other, or make the other less necessary. This is one way in which the difference in the nature of social expenditure in the United States and Western Europe can be explained. Such an interpretation is possible in the light of Heidenheimer's generalization that "public social insurance schemes and some other income maintenance schemes were introduced in the United States with about a generation lag behind Europe" while "with regard to public education, the broadening of the United States post primary school opportunities occurred a generation earlier than in Europe".²⁶

Education (promotion) and income support (protection) can thus, to some extent, be seen as the "cores of alternative strategies"²⁷ aimed at a similar objective. The relationship between traditional unemployment insurance benefits, providing income support, and active labour market policy, aimed at retraining and providing suitable jobs, can also be viewed in this light.

It is thus to be expected that the objective of security can be achieved through many different instruments and different combinations of instruments in different countries. In addition to the three characteristics of social security instruments already mentioned (nature of entitlement, controlling agency and whether it deals with protection or promotion), such instruments can also be classified according to:

- the rules of eligibility;

²⁵See Van der Berg (1989e:133) and Sen (1984b:510-511).

²⁶Heidenheimer (1981:261).

²⁷Heidenheimer (1981:261).

- the types of benefits;
- the means of financing the benefits;
- the degree of coercion involved;
- the formality of the institution; and
- the contingency which is catered for, such as old age or unemployment.

It is an important argument of this study that differing levels of formality or bureaucratization should not lead to a neglect of the similarities between different institutions which fulfil the same functions. In the case of state social security measures in Western European countries the rules of eligibility, contribution requirements and the nature of benefits are normally clearly spelled out. These aspects are not so clearly stipulated in the case of other less formal institutions in these societies nor in the case of instruments used in other societies. Provision for the period of retirement is an example. While modern pension schemes entail clearly spelled out rules with regard to contributions and the calculation of benefits, family provision of such income support in traditional and modernized societies can fulfil the same function without such clear rules about contributions and the level and nature of benefits. Less formal methods can provide promotion and protection falling within the wide definition of social security given above. These less formal methods should therefore be viewed as instruments of social security.

The different *types of benefits* which can provide security can be divided into cash benefits and goods and services in kind. Goods and services can be provided either at a zero price or at a reduced price. Purchasing power over goods and services (vouchers) and indirect benefits through tax deductions and credits fulfil the same functions as cash and goods and services. Certain regulations (e.g. health regulations) and social conventions might also be said to enhance security through improvements in the quality of the environment. Such regulations, however, often have more direct objectives and are difficult to analyze within the sphere of social security because of the difficulty of imputing a value to the benefits.

Benefits can further be divided into three types with regard to *eligibility conditions*. Some benefits are available universally to people with certain responsibilities (e.g. child benefit in the United Kingdom) or with certain needs (National Health Service in the United Kingdom, and primary education in most countries). Demonstration of belonging to a specific category

of people (not level of income) or specific responsibilities will qualify a person for these benefits. These benefits are normally referred to as categorical or universal benefits. In other cases access to benefits can be restricted by requiring a means test (with benefits then referred to as social assistance), or by requiring prior contributions to a reserve fund (social insurance). As mentioned before, rules of eligibility in less bureaucratized societies will be more informal and not as clear to outsiders. This will, however, also be the case with the provision of social security through certain institutions in wealthier countries such as the nuclear family and religious organizations. In spite of the informality of the rules it is to be expected that certain traditional mechanisms will be accessed first while others will exhibit more elaborate eligibility requirements, especially with regard to reciprocity or future "indebtedness".²⁸

Another instrument of social policy is income support through public employment. Such employment creation by the state lies somewhere between social security provision and labour market policy. These schemes can be classified as instruments of social security because the labour services required in return for cash are more in the nature of an eligibility requirement or targeting mechanism than it is normal labour services. The motives for such public work programmes will however always exhibit a mixture of considerations. In some cases this will include infrastructural development and the use of appropriate technology in addition to providing security.²⁹

Another aspect in terms of which social security measures differ is how they are *financed and produced*. Programmes can be completely financed from general government (tax) revenue or can be financed from contributions by members. Furthermore, the state can be involved to differing degrees in the actual production of goods and services. In the case of the British Health Service provision is not only financed from tax revenues but the state is also the dominant producer with personnel actually in the employment of the state. A similar situation exists with regard to the provision of primary and secondary education in most countries. In the case of Germany the role of the state is restricted to the statutory enforcement of compulsory medical insurance and its regulation. The actual health care

²⁸See, for example, Colson (1979) for some implicit evidence of this.

²⁹See Drèze and Sen (1989), chapter 7, for a discussion of public works programmes in the context of poverty alleviation in developing countries.

services in Germany are produced by private organizations and paid for by autonomous health insurance bodies financed from the contributions of members. Participation in social security arrangements can also be compulsory (retirement insurance in the United Kingdom) or voluntary (retirement insurance in many less developed countries).

It should be clear that the very general objective of social security, as defined here, can be approached using many instruments and innumerable different combinations of instruments. Which instruments will be selected and which will be efficient under specific circumstances, will depend on many factors which are not clearly understood. Later sections will attempt to address this question more directly. For the moment it is, however, important to note that social security should not only be associated with the social policies in the developed countries where an extreme "deliberateness and rational matching of ends and means" in social policy is found.³⁰ Although the causes may differ between societies and over time, insecurity is a general problem and needs to be confronted by all types of societies. Therefore, social security should not be confused with one or other formal programme advancing social security (for example, social insurance).

This is also the motivation for adopting a wide definition of social security. As Drèze and Sen argue, "there is some obvious advantage in considering all the relevant forms of intervention in a common framework".³¹ In analysing the growth and rationality of government intervention in the field of social security it is important to keep track of the historical antecedents and the possible substitutes and complementary policies. In the words of Alber, *et al.*, "the interplay of public and private institutions around issues of social protection has become so complex that the isolation of state welfare expenditures as the object of study makes little sense theoretically".³² This interplay has always been intricate. Therefore focusing only on what has been called "formal social security"³³ will be too narrow if the aim is to get clarity about the relationship between state provision of social security and economic development.

³⁰Mishra (1977:x).

³¹Drèze and Sen (1989:16).

³²Alber, *et al.* (1987:461).

³³Ahmad, *et al.* (1991:viii).

In this study the focus is therefore on social security as an objective and the role of state provision of services in attaining this objective. It is clear that this objective can be advanced in many ways. The concern in what follows is mostly with income support and supplements, education, health and housing as services providing security. The next section inquires whether *a priori* reasons, based on the established theory of market failures, can be found to explain and justify extensive state provision of these services.

1.2 The assumption that "goods are goods"

In the previous section it was argued that social security should be seen as a general objective or "need" of society rather than a "catchword" for "selected [government] policies".³⁴ This approach, it is submitted, will make possible a more accurate and useful study of the different instruments providing social security and their historical evolution. In this section this viewpoint is expanded and motivated further. This is done by arguing that the state is not the only agency which can or should provide services which advance social security.

Because of the seeming dominance of the state in the provision of social security in the advanced capitalist countries, it is a common perception that social protection can only, or can best, be provided by the state. This empirical "generalization" is sometimes further strengthened by certain theoretical views on "market failures" which often lead to the view that some goods can broadly be classified as government goods (or "public goods") and others as private goods. In this section this view is analyzed. It is concluded that the empirical case is not conclusive and that the theory of market failure does not imply a fundamental theoretical distinction between government goods and private goods. There can then not be a presumption in favour of state provision based on an analysis of market failure. Rather, with Breton³⁵ it is argued that governments compete with other institutions in the provision of certain services and that the eventual source of supply must be seen as the result of changing comparative advantage. As circumstances change it can be expected that the comparative advantage and the relative involvement of different institutions in the

³⁴ Ringen (1987:4).

³⁵ Breton (1989).

provision of certain services will change.

1.2.1 The empirical case for viewing certain goods and services as government goods

There seems to be some similarity in the type of activities which governments in different countries undertake or do not undertake. Mueller, for example, points out that governments are typically involved in the provision of defence, police and postal and telephone services, but not in the provision of clothing, furniture and other household items.³⁶ Mayer, using figures for 1985, indicates that in each of the eleven Organisation for Economic Cooperation and Development (OECD) countries the state owns more than 75 per cent of postal services with further high public ownership in airlines, electricity, gas, railways and telecommunications.³⁷ In the last-mentioned industries more than 50 per cent of the industry is publicly owned on average for the OECD countries as a group. These examples would seem to indicate that a clear demarcation can be made between government goods and market goods, or goods provided by the state and goods procured through the market.

A closer look at historical and contemporary reality will, however, indicate the inaccuracy of such a view. From an historical perspective, it is clear that many goods and services that are provided by governments in developed countries today have been provided by non-government institutions in the past; while goods which are privately produced today have been provided by governments in the past.³⁸ Under the first heading (earlier associated with "private" production), Breton mentions "national defence, lighthouses, mail delivery, police, fire protection, roadways and parks". As part of the second group he mentions "bread, circuses, parks, baking ovens, milk and orange juice".³⁹ Furthermore a lot of goods and services are currently provided by both government organizations and private organizations. Examples, in the South African case, are express parcel services, road transport and long-haul bus services, television, radio, air travel and nature conservation.

³⁶Mueller (1989:39).

³⁷Mayer (1989:265).

³⁸Breton (1989:721).

³⁹Breton (1989:721).

Supply of a specific service by more than one type of institution is also found in the sphere of social security. Not only have sources of supply changed over time but currently different institutions provide services fulfilling the same need or objective. This is the case in most of the fields providing social security, such as income support, health, education, housing and personal welfare services. Two situations related to insecurity will be looked at in order to illustrate this point.

One important source of insecurity for most people is the uncertainty of income after retirement. A number of factors, such as the inability to predict length of life and a lack of information, make planning for this contingency problematic. In order to fulfil this need a number of supply sources have evolved. A few of these are mentioned in order to illustrate the reality of competing supply sources.

Firstly, it is clear that "families can [and do] self insure against uncertain dates of death through implicit or explicit agreements with respect to consumption and inter-family transfers".⁴⁰ The existence of such implicit insurance contracts is one convincing explanation for the prevalence of large families with a stable demographic structure in many developing countries.⁴¹ But even in the developed world the family is perhaps underestimated as a source of security in old age. Zapf finds that for Germany "(m)any more old, sick and handicapped persons are taken care of in households than can ever be admitted to institutions".⁴² Ringen seems to hold that this is also true for Sweden.⁴³ Secondly, religious organizations have also been, and are, involved in the care of the aged through the provision and financing (subsidizing) of housing and other services in kind.⁴⁴ Thirdly, employers often provide access to post-retirement cash income through occupational pension schemes to which employees must subscribe. These schemes can be voluntary efforts by employers or be mandated by the state, and are normally financed through

⁴⁰Kotlikoff and Spivak (1981:372).

⁴¹See Becker (1981:233-239); Rosenzweig (1983:1167) and Deaton (1989:64) and on Africa, Iliffe(1987:72).

⁴²Zapf (1984:271-2), quoted in Ringen (1987:125).

⁴³Ringen (1987:134).

⁴⁴South Africa (1940:15); Breton (1989:726-727).

contributions by employers and employees. In the fourth place, governments, in addition to providing "occupational" schemes to their employees, provide programmes through which old people without sufficient alternative income are provided with a cash income. These come in the form of social insurance (eligibility depending on contributions) or in the form of social assistance (with eligibility depending on means). The state also often provides, or finances partly, services such as housing, care of the frail and other services for the elderly.

In addition to the family, religious bodies, employers and the state playing a role in creating security for the elderly, individuals can, and do, also make provision for themselves through private saving, contractual savings and/or "private" pension funds. The diversity of possible supply sources should be clear in spite of the fact that this list is not exhaustive. It further shows not only the variety of sources, but also the different degrees to which, and ways whereby, governments can intervene. Governments do not only intervene through making cash transfers, but can also be involved by producing a more traditional service, regulating total production or individual consumption and financing (subsidies to private organizations, "free" access, vouchers).

The same diversity of sources is evident in the services associated with child-rearing. The normal assumption seems to be that the household or family is the ideal institution for raising children and that the cost of these activities must be borne by the family circle.⁴⁵ Obvious exceptions do however exist. Specialized aspects of child-rearing such as education and health services are commonly financed and produced by governments. Tax allowances based on the number of dependents are subsidies for child-rearing. The existence of these subsidies give an indication of a social judgement that people with children need special assistance. Most Western European governments go further than tax deductions and pay cash transfers to families based on the number of children in the household. The state may also provide housing and specialized care for destitute children in government institutions or in subsidized private institutions. Allowances for students at tertiary educational institutions are widespread and education allowances for pupils from poor families can also be

⁴⁵For a general discussion see Becker and Murphy (1938:3-5), where the advantages of bringing up children within the family are attributed to the importance of altruism in transactions between family members.

found (e.g. in Germany).⁴⁶ Private welfare organizations, often subsidized by the state, provide many services related to child care as do many private employers (e.g. creches for the children of employees and scholarships). Churches also play an important role in certain aspects of child care, for example the provision of educational services, although this role has declined over time.

The above examples of the provision of two services related to social security and the other general examples of government provision indicate the impossibility of distinguishing, on empirical grounds, between goods and services which are normally government or public goods and others which are private goods.

1.2.2 The theoretical case for viewing certain goods as government goods

The theoretical case for state intervention in the market economy can be based on an instrumental argument as well as on arguments about values. The instrumental case would be that given the objective of efficiency, freely working markets cannot attain this. Additionally, or alternatively, it can be argued that efficiency, which the market serves reasonably well, is not the only important objective of a society. Other objectives, such as income distribution and social justice, are possibly also viewed as important and the market cannot advance these adequately.⁴⁷

Following from these two arguments the state can be seen as having a distributive function and an allocation function. The distributive function entails bringing the distribution of well-being into line with the preferences of society in this regard. The allocation function justifies state interference on the grounds of ensuring an efficient allocation of resources.⁴⁸ The motivation for giving the state a role in the allocation of resources will be discussed first, whereafter the case for income redistribution by the state will be evaluated.

⁴⁶See further Atkinson and Hills (1991:96) for a classification of the different types of "child support" by the state in France, Britain and the United States.

⁴⁷See Helm (1989:12-13).

⁴⁸See Musgrave and Musgrave (1980:3-16).

(a) *Government intervention to promote efficiency*

The grounds for government intervention to ensure efficiency are normally derived by identifying the conditions under which decentralized markets will ensure efficiency, and then indicating how these conditions are not fulfilled in the real world. Efficiency is defined in the Pareto-sense, i.e., as a situation where it is impossible to improve the position of one person without harming someone else. The absence of conditions necessary to ensure Pareto-efficiency are normally referred to as causes of market failure.⁴⁹

The conditions for a competitive equilibrium to produce a Pareto-efficient outcome can be reduced to two. Firstly, households and firms must be price takers, and secondly, there must be a complete set of smoothly adjusting markets.⁵⁰ In the absence of these conditions market failure results. These market failures can be discussed under three general headings:

- the existence of monopoly power or market power,
- public goods and
- externalities.⁵¹

⁴⁹See Helm (1989:14-15); Atkinson and Stiglitz (1980:5-6) and Helm and Smith (1989:277).

⁵⁰Atkinson and Stiglitz (1980:343) add a third condition, namely the existence of "perfect information". It is, however, arguable that information is a commodity which can ideally be traded in perfectly competitive markets. This third condition can then be seen as additional, and unnecessary, to the condition that there must be a complete set of markets. Helm and Smith e.g. (1989:277) give an even longer list of conditions, namely full information; absence of monopoly power, externalities and public goods; the existence of perfectly defined and costlessly enforceable property rights; and perfect mobility of factors of production. It can, however, be argued that some of these conditions are repetitive. For example, incomplete markets result from unspecified property rights, while externalities can be seen as resulting from incomplete markets.

⁵¹The list of market failures given in most texts are normally longer. Kay (1989:221) notes public goods, externalities, problems related to information, paternalism, undefined property rights and the existence of monopolies. For a very similar list see Atkinson and Stiglitz (1980:8). These longer lists seem to flow from a failure to distinguish between the cause of the market failure and the market failure itself. Mueller (1989:27 and 35) and Friedman (1990:517) give brief comments on the interrelationships between the different types of externalities and public goods.

Market power and, to an extent, public goods result from "indivisibilities or peculiarities of the production function"⁵² while externalities and, to an extent, public goods, result from "non-market interdependence".⁵³ The case of market power is ignored here and the focus directed towards public goods and externalities.

Looking in general at the causes of public goods and externalities, it is possible to argue that they are rooted in the absence of markets for certain goods and services. This absence of markets can again be traced to the incomplete specification of property rights. Because, under normal conditions, nobody in a neighbourhood has the exclusive right to "quiet in the neighbourhood", no trade is possible and no smoothly working market can solve the problems. As a result of this some inhabitants can affect the utility of others negatively without paying the real (or social) cost of their activity and will thus produce an excessive amount of, for example, noise. This is then an example of a negative externality. This negative externality can also be seen as resulting from the impossibility of excluding the quiet neighbours from the noise. The negative externality is the same thing as a negative public good or a "public bad". Too little effort to remove the source of the noise will be forthcoming, contrary to the excessive production of noise, because it is a public good. This implies that neighbour A will not be prepared to confront the noisy neighbours because he will have to take the direct consequences (costs) while the other neighbours will reap some of the benefits of the increased silence without making a contribution to costs.⁵⁴ At the root of this market failure is the inability to solve interdependencies through the market. This failure can then be seen as a result of incompletely specified property rights which make exclusion impossible.

Although public goods and externalities will be treated separately, it should be kept in mind that externalities and public goods are really different ways of describing the same problem. A positive externality is a public good while a negative externality is a "public bad". Refraining from producing negative externalities are public goods.⁵⁵ The exact effects of,

⁵²Arrow and Scitovsky (1969:183).

⁵³Arrow and Scitovsky (1969:183).

⁵⁴The above example is based on Farrel (1987:113).

⁵⁵See Friedman (1990:517).

and the "solutions" to, the problems might however differ in some circumstances so that it is helpful to discuss them separately.

(i) *Public goods*

Public goods are characterized by jointness of supply (non-rival consumption) and the technical impossibility or prohibitive costliness of excluding extra consumers once the good has been provided to some.⁵⁶ Jointness of supply implies that, in the extreme case, the only costs of production are fixed costs, so that the cost of providing it to one more person, once it has been produced, is zero. This makes it irrational to exclude people from usage and creates an incentive for people to cooperate in the provision of the product and share the (fixed) costs. The impossibility of exclusion, however, makes people reluctant to reveal their preference for the public good because failure to reveal will not lead to exclusion. There is thus also an incentive not to cooperate, i.e. to "free-ride". A typical example of a public good due to non-rival consumption is radio broadcasting, while lighthouses can be used as an example of a public good as a result of the difficulty of excluding users.

Because of the jointness of supply and exclusion characteristics of public goods, individual maximisation would lead to less than the Pareto-optimal quantity of the public good being produced.⁵⁷ The reason is that people cannot be excluded, and thus cannot be forced to reveal their preference by offering to pay a price. The market has difficulty in allocating these goods because consumption is not contingent on first paying a price. One option is for the political process to substitute for the market process by getting people to reveal their preferences through voting and to finance the activity through forced payment.

In addition to the general efficiency losses resulting from too few public goods being produced, the fact that less than the optimal amount of information is produced can lead to several further "demand failures".⁵⁸ Because of a lack of information people might choose inconsistently or against their own best interests. One possible example, in the field of social security, is that "many individuals will not save enough for retirement if left to their own

⁵⁶Mueller (1989:11). The classic article is Samuelson (1954).

⁵⁷For a formal derivation see Mueller (1989:13-19) and Samuelson (1954).

⁵⁸Helm (1989:15).

devices" because of the "difficulty of obtaining suitable information for informed judgement..".⁵⁹

A special case of information failure which might lead to either demand failures or under-provision, is the case of asymmetric information.⁶⁰ If the producer knows more than the client, the client cannot really make a rational choice. Examples of such cases are second-hand motor cars and medical services. In other cases the consumer might be able to withhold information from the producer. This can be identified in the life-insurance markets where the insurer cannot distinguish between high risks and low risks and therefore needs to charge an average price. This average price benefits high-risks clients but discriminates against low-risk clients. The number of policies sold to low-risk clients will then be less than the optimal quantity, while the high-risk clients will overinsure relative to the efficiency norm. This is normally referred to as the problem of adverse selection. In extreme cases the service in question will not be provided at all.⁶¹

In addition to social provision being non-rival to some extent, incomplete information or asymmetric information might lead to "wrong" choices about private purchases of social services. The existence of imperfect and asymmetrical information has serious implications for the working of capital and insurance markets. This is of relevance for the provision of social security because many aspects of social security present problems of intertemporal allocation of resources. Such intertemporal allocation of resources requires smoothly adjusting capital markets. This is the case with the financing of education where children need a loan in order to postpone productive activity. In the case of retirement pensions provision has to be made for a lack of productive contribution in the future. Other aspects of social security require insurance markets. This is the case with health services and aspects of income support such as health insurance and disability pensions.

In many cases these characteristics of services related to social security are seen as arguments for government intervention. The government is then seen as an institution which

⁵⁹Diamond (1977:281).

⁶⁰Friedman (1990:528). The classic article is Akerlof (1970).

⁶¹Barr (1987:63-64).

can provide the efficient amount of public goods. In effect the government serves to reveal demand and enforce payment. An evaluation of this conclusion will follow after externalities as a source of market failure have been discussed.

(ii) *Externalities*

Externalities or external effects are said to exist where "an act of agent A imposes costs or confers benefits on agent B for which no compensation for A to B or payment from B to A takes place".⁶² Examples of external effects in production is the factory's smog harming the laundry (negative externality) or the apple farmer assisting the bee-farmer (positive externality). In consumption, negative externalities might result from the consumption of loud music, while positive externalities to society might result from consuming goods improving a person's health and education.

The existence of externalities will once again lead to individual maximisation not ensuring Pareto-efficiency.⁶³ Activities having negative, uncompensated effects on others will be overproduced because the perpetrator is not forced to carry the whole (social) cost of the activity. On the other hand, activities having positive effects will be produced in insufficient quantities because the benefits accruing to the wider society are not considered in the process of individual maximisation.

While insecurity and poverty in a society can be seen as producing negative externalities, many of the activities to promote and protect social security can be seen as producing positive externalities. Unemployment does not only inflict hardship on the individual, but might also damage society by leading to the wasting away of the skills of the person⁶⁴ and the person's ability to provide for the education and sustenance of his children. The failure of someone to accumulate sufficient savings will lead to a cost on society if it is viewed as the responsibility of society to care for old people "if all else fails". Vulnerability to illnesses and pests because of not receiving health care might not only inflict costs on the person,

⁶²Barr (1987:83).

⁶³For a formal derivation of the result see Mueller (1989:25-27).

⁶⁴Rimlinger (1971).

but also on society in the form of the spread of contagious diseases. The absence of basic facilities, like sewerage or education, might impact negatively on the health and stability of whole societies, not only on the person directly involved.

(iii) An evaluation of the theoretical case

Many examples of public goods and external effects can be identified in the sphere of social security provision, as has been done above. The question is whether the predominance of market failures in certain areas implies that the pertinent goods and services should be provided by governments. In other words, should public goods and the internalization of externalities be "government goods"? A number of reasons exist why this question should be answered in the negative and why Breton's motivation for the view that "goods are goods and services are services" or "that there are no goods and services which, on *a priori* grounds, are always and everywhere exclusively government or public goods and services" should be accepted.⁶⁵

In the case of externalities, it is normally argued that a system of taxes on the perpetrators of negative externalities and subsidies to activities generating positive externalities could "internalize the externalities" and so enhance efficiency. In the case of public goods government provision and financing through forced payments (taxation) could eradicate underproduction.

However, a number of reasons indicate the need for scepticism about the possibility of government intervention to establish efficient outcomes. These then also weaken the welfare economic case for state intervention.

A first important reason for scepticism about government intervention is that it was realized, in the light of substantial inefficiency related to government intervention especially in developing countries over the last number of decades, that governments can also "fail".⁶⁶

⁶⁵Breton (1989:720-1 and 745).

⁶⁶The notion of "government failure" has become part of conventional wisdom in the 1980's. For a discussion see Stern (1989:615-618). The basic idea, free from its current partisan overtones, has been expressed much earlier. See, e.g., Hirschman (1953:54 and 65).

Such government failure can result from a number of causes. Firstly, in order to provide public goods and determine the optimal taxes and subsidies, the government will need information which is not freely available and not easily found, such as the preferences of individuals and the conditions of production. Governments might have an even bigger problem than markets have to elicit and process such information.⁶⁷ Often informational requirements are substantial and government might thus fail to institute the "correct" or efficiency-enhancing measures. Secondly, because of the impossibility of levying lump-sum taxes to finance provision, government actions will distort the decision making of economic actors. This leads to a situation where the costs to society can exceed the value of government revenue earned, resulting in excess costs or dead-weight losses associated with taxation.⁶⁸ Furthermore, it is also possible that instead of aiming to maintain efficiency, bureaucrats might act in their individual interests and try to maximize their own utility to the cost of society.

Related to the above causes of government failure is the fact that government intervention leads to "resource-using activities" in order to influence the nature and benefits to different groups of such intervention. This takes place "through lobbying and corruption - often called rent-seeking or directly unproductive activities in the literature".⁶⁹ Together the above problems of government provision may result in greater costs to society than the efficiency loss associated with the initial market failure.

In addition to government failure as a reason for not relying on government provision or taxation, there is also the fact that a pure public good, satisfying the non-excludability and joint-supply characteristics, is an extreme case and likely to be a rarity. Many goods can be described as mixed goods, in that they possess some of the characteristics of both public and private goods. It might, for example, be possible to exclude people although consumption might be non-rival up to a certain point. In this case private provision might

⁶⁷This is in fact the great advantage of the market in Austrian/Hayekian terms. See Helm (1989:18-19).

⁶⁸See Atkinson and Stiglitz (1980:367-370).

⁶⁹Stern (1989:616).

be effective.⁷⁰ This is related to the point that although externalities might be identified, that is not to say that they are "relevant" or "Pareto-relevant".⁷¹ An externality is "irrelevant" if it does not induce the externally affected to take action. "Pareto-irrelevance" refers to those cases where the externally affected cannot be compensated without making the perpetrator of the externality worse off. The implication is "that externalities may remain even in full Pareto-equilibrium".⁷² This ties up with one of the important implications of the Coase theorem⁷³ which states that because an externality is created by the presence of two parties, levying a Pigouvian tax on one party might not ensure efficiency. Efficiency will only be ensured if the person who can take action at the lowest cost undertakes the appropriate action.⁷⁴

These views about the reality and relevance of public goods and externalities lead to two important implications. Firstly, many institutions other than governments can, at least to an extent, deal with public goods and externalities. Secondly, public goods and externalities should be associated with a specific economic environment and not with specific goods and services. These implications are dealt with next.

A number of different ways have been found to deal with public goods and externalities other than through government provision. Goods with joint supply characteristics (i.e. non-rivalry in consumption) but where exclusion is possible can be provided by "clubs".⁷⁵ Decentralized decision making can then, under some (rather restrictive) conditions, lead to efficient outcomes. This will also be the case for public type goods where the optimal size of the sharing group (those who collaborate to reduce costs) is smaller than the entire nation. In the case of public goods where exclusion can take place on spatial or geo-

⁷⁰Beckerman (1989:78).

⁷¹Buchanan and Stubblebine (1962:200-205).

⁷²Buchanan and Stubblebine (1962:208).

⁷³Coase (1960).

⁷⁴See Buchanan and Stubblebine (1962:209-210), and for more informal treatments Buchanan (1984:159) and Friedman (1990:522-523).

⁷⁵Buchanan (1965) and Mueller (1989:150-154).

graphical grounds (local public goods) government provision might not be justified either.⁷⁶ In these cases the conclusion on pure public goods, namely that allocation through political mechanisms is necessary, does not necessarily hold. Market-type or decentralized solutions do exist.⁷⁷

In the case of local public goods people will reveal their preferences through moving between local authorities (voting with their feet) "to that community which satisfies their set of preferences. Spatial mobility provides the local public goods counterpart to the private market's shopping trip" and "(t)he greater the number of communities and the greater the variance among them, the closer the consumer will come to fully realizing his preference position".⁷⁸

The possibility of decentralized decision making, bargaining in this case, leading to an efficient outcome in the presence of externalities also flows from the analysis of Coase. Following from the realization that there are two people involved in any interdependence, Coase argued that the only government involvement needed is "initial definition of rights and enforcement of contracts". In the absence of transaction costs this will ensure that the parties bargain their way to an efficient solution.⁷⁹

The models of clubs, local public goods and bargaining will of course only ensure optimal outcomes under extreme circumstances.⁸⁰ More specifically, positive bargaining costs might stand in the way of parties reaching an efficient outcome because the cost of bargaining might exceed the benefit from transacting.⁸¹ In spite of this the realization that all so-called public goods are not pure public goods and that there are many institutions intermediate to the state and the market indicates that there might be a whole range of types

⁷⁶Tiebout (1956) and Mueller (1989:159-163).

⁷⁷Tiebout (1956:416-417).

⁷⁸Tiebout (1956:418 and 422).

⁷⁹Buchanan (1984).

⁸⁰For a discussion of the Tiebout model see Buchanan and Goetz (1972). The limitations of the "Coase theorem" is briefly discussed in Graaff (1989:255).

⁸¹Graaff (1989:255).

of institutions to deal with public goods and externalities. This theoretical illustration coupled with the empirical case that public goods are in fact provided by a range of organizations makes government failure an incomplete argument for government intervention.

A second implication of a more realistic view of public goods and externalities is that "publicness is an attribute of institutions, not of abstract economic goods"⁸² The general economic environment might then determine the nature of publicness. In this way increased population growth through congestion might make certain public goods (schools, roads) more akin to private goods because the congestion might lead to rival consumption and rationality of exclusion. Technological change over time might also, through enabling exclusion, allow private provision of goods previously viewed as public.⁸³ The existence of externalities might also be linked to the current state and level of development of property rights. The refinement of private property rights into areas of "communal" ownership might then also over time lead to the possibility of efficient market or decentralized allocation increasing.

Alternatively, increased specialization and urbanization might lead to increased interdependencies between people, and perhaps new types of interdependencies, so that the seriousness or nature of external effects might change. A larger population might also provide increased opportunities of sharing (collaboration) and economies of scale in the production of certain public goods. Changing circumstances will then determine whether collective action will become necessary or beneficial, or whether private action will become more predominant.

A general conclusion at this stage should then be that the theory of public goods and externalities does not provide sufficient grounds for government intervention in the sphere

⁸²Cowen (1985:62).

⁸³Cowen (1985:62-63) gives the following "institutional features" (which are really closer to economic characteristics) which might affect "publicness": "intensity of demand for the good, the amount of the good that has been produced, the current state of technology, the manner of distributing the good, the manner of consuming the good, and the manner of charging for the goods used". Buchanan (1984:174) distinguishes between two factors determining the publicness, namely the degree of divisibility of the product and the size of the interacting group.

of social security. This is because it is impossible to identify relevant public goods and externalities without reference to the concrete circumstances of each case. Changing circumstances (which change the nature of goods and services) and the existence of a whole range of institutions which can deal with these changing circumstances argue against general conclusions.

(b) *Government intervention to redistribute income*

Government intervention in the provision of social security is often justified on grounds of equity and redistribution. It is widely acknowledged that perfectly functioning markets, in spite of being able to attain efficiency, will most probably not provide an income distribution "in line with what society considers fair or just".⁸⁴ Because of this, it is argued that the state has a "distribution function". It is normally assumed that the distribution function might conflict with the allocation function in the sense that redistribution will affect incentives and production, resulting in a trade-off between efficiency and equity. Many government activities have been explained in this way with some economists maintaining that redistribution is the sole motivation for government action.⁸⁵ Social security expenditure can then be seen as a government function because it is a good mechanism for distributing income.

In this regard it is necessary to insist that the analytical separation of efficiency and distribution, although perhaps helpful in some contexts, is superficial, as is the simple assumption of necessary trade-offs between the two.⁸⁶ One way of arguing the interrelatedness of the two aspects is to assume that the income of the poor is a factor in the utility function of the rich. Hochman and Rodgers have indicated that in such a case redistribution might be efficiency enhancing in that everybody's utility will increase as a result of the redistribution.⁸⁷ The poor will be better off as a result of a higher level of income, while the rich value the opportunity to contribute to the higher income of the poor more than

⁸⁴Musgrave and Musgrave (1980:11).

⁸⁵See references in Mueller (1989:33).

⁸⁶See Hochman and Rodgers (1969:542) for a discussion.

⁸⁷Hochman and Rodgers (1969:543 and 556).

they value their own lost income. Such an outcome will be the case if the rich have an altruistic preference for the income of the poor - what Sugden has described as the existence of an "altruistic externality".⁸⁸

Such redistribution might, however, be a public good in the sense that people who do not contribute to the redistribution might also share in the benefits. Rich man A's utility increases because of the increased income of poor man B, financed by rich man C's kindness. There is then again the opportunity for free-riding which might imply undersupply and so justify government intervention.

Income redistribution can then be classified as a public good or as relevant to the internalization of externalities. In such cases of redistribution the question about government intervention then becomes a question about efficiency.⁸⁹ If income redistribution can so be brought under the rubric of public goods and externalities the judgement about the need for government intervention must depend on whether it is believed that public goods and externalities provide grounds for state intervention. It is not apparent that such grounds exist, however.

This category of redistribution problems becomes more important if it is realized that altruistic externalities need not be the only channel through which redistribution can be seen to be efficiency enhancing in the Pareto sense. Many other types of externalities might have the same effect. Redistribution as a result of increased expenditure on schooling might benefit everybody in a society in the final analysis because of the increased productivity in the economy. The redistribution incidental to public works programmes might "buy" more stability for society, resulting in an improved quality of life for both the recipient and the person financing the redistribution.⁹⁰

What should be apparent is that redistribution is in some cases something akin to any other

⁸⁸Sugden (1982:341).

⁸⁹See Sugden (1982:341) and Hochman and Rodgers (1969:543).

⁹⁰Hendrie (1986:12-13).

service which people buy in order to make themselves better off.⁹¹ In other cases redistribution is incidental to the production or provision of certain goods and services, and thus a by-product of other activities.⁹² Helm and Smith refer to these as mixed goods which have some public good characteristics, but are also provided for distributional purposes.⁹³ In these cases, at least part of the case for government provision must be that the government produces these services at a lower opportunity cost.

The conclusion must then be that the unacceptability of the level of inequality in society does not necessarily imply a role for government. Other agencies, as Breton has indicated⁹⁴, have in the past, and are still today, involved in activities leading to redistribution. The normal view - that the existence of unwanted inequality necessitates government action - is not warranted. In addition to the assumption of an unacceptable primary distribution of income, further assumptions or evidence are needed to explain government intervention. Such assumptions or evidence would have to establish that the state has a comparative advantage in the provision of redistribution, or in the provision of services resulting in redistribution, in a specific situation.

1.2.3 Viewing goods as goods

The conclusion which follows from the foregoing is that redistribution, just like public goods and the elimination of externalities, should not be viewed on theoretical grounds to be something that must always be provided by governments. Instead, Breton's suggestion that the analysis of (the growth of) governments cannot be based on a fundamental (*a priori*) distinction between private goods and services and public or government goods and services, should be accepted. Accepting this entails furthermore "a recognition that there

⁹¹See also Ringen (1987:115-116). He argues that although civil pensions might increase the income of the elderly poor and thus lead them to cut their labour supply, this effect on the labour supply, cannot be seen as an efficiency loss or a welfare loss. It is the result of the decisions or choice of individuals, therefore it cannot be construed as a loss of production. The choice involved in redistributing or not, is then very much the same as that between saving and not saving, or buying or not buying, or buying Coke rather than Pepsi.

⁹²Breton (1989:729).

⁹³Helm and Smith (1989:282).

⁹⁴Breton (1989:726-727).

are many possible sources of supply for the goods and services wanted by demanders and that these sources compete with each other".⁹⁵ The decision about who will supply what services will then depend on the comparative advantage of the different institutions at different times.⁹⁶

This approach should also be the starting point in the analysis of the relationship between economic development and the development of institutions providing social security. This view underlines the fact that instruments of social security which are today, as a matter of course, provided or controlled by governments in certain societies can be, and have often been, provided by other institutions (for example, households, community and charity organizations, religious bodies, or business enterprises). Furthermore, these services can be provided by different levels of government, namely local, regional and central government. In fact, different levels of government and other institutions can be seen as competing producers of social services.

It is thus clear that on theoretical grounds social security can be provided by a range of institutions and that changing conditions might affect the different suppliers differently so that the sources of supply will change. The next section argues that in spite of the inability to deduce clear theoretical guidelines from the theory of market failure, some clear trends can be identified. In the light of these trends (illustrated in Chapter 3), and the fact that these trends can be explained using the economic analysis of markets, valid generalizations can be made.

1.3 Hypothesis

As a result of the complexity of the structure of sources supplying welfare services and the complex changes over time, generalizations about the development of these institutions are fraught with dangers. In spite of these dangers, it is proposed here that although there will be many private and public sources supplying social security at any one time there is a tendency, as economic development progresses beyond a certain level, for a greater share

⁹⁵Breton (1989:745).

⁹⁶Breton (1989:726).

of these services to be provided by governments. This expansion of the "welfare state" takes the form of a reassignment of functions from other institutions to the state (often through the creation of new types of institutions) and an increased coverage of risks and needs provided for by the state. In other words, it can be said that as development takes place, the provision of social services tends to be "nationalized" in the sense that the state assumes greater responsibility in spheres previously seen as falling within the private domain, or in the domain of voluntary organizations.

The above trend has been remarked on by many. Hufton in her work on the poor of eighteenth century France tells us that "(t)he history of European poor relief is at least as old as European Christianity and is one of change from a religiously based, voluntary charity, as expounded by the evangelists, to the complete assumption by the state of responsibility for the neediest members of society".⁹⁷ Flora and Heidenheimer argue that "(t)he later consolidation of the absolutist state was accompanied by a gradual, though by no means continuous, 'nationalization', differentiation and extension of welfare institutions"⁹⁸ and Flora⁹⁹ argues that "... with the spread of the industrial mode of production, and diffusion of the nation state as the predominant form of political organization, the creation of public education, health and social security systems has become a world-wide phenomenon. In this respect, the evolution of the welfare state clearly represents a universal aspect of modernization". Breton also holds that a large part of the growth of the government sector in Canada can be explained by the "reassignment" of health services, education and the care of orphans and the elderly from the private to the public sector.¹⁰⁰ Papadakis and Taylor-Gooby believe that "the development of the welfare state is partially a story of official colonization of friendly society and trade-union self-insurance for the different fractions of the working class, of the absorption of working-class education and child care [and] of the coordination and extension of the private, voluntary and municipal health care systems".¹⁰¹ From a cross-section perspective it is also clear that a significant part of the larger relative

⁹⁷Hufton (1974:131). See also Barr (1987:9).

⁹⁸Flora and Heidenheimer (1981:22).

⁹⁹Flora (1986:15).

¹⁰⁰Breton (1989:726-727).

¹⁰¹Papadakis and Taylor-Gooby (1987:3).

role of the state in rich countries can be explained by the higher level of government transfer payments in such countries.¹⁰²

The general idea of state provision usurping provision by other institutions or, in other words, the tasks of other institutions being reassigned to the state, is thus not original. In spite of its general acceptability this hypothesis has seldom been subjected to detailed study and clearly distinguished from more general postulates about the relationship between economic growth and state provision of social security. Moreover, only very recently has the implications of such a perspective for increased state provision of social security in the developing countries received significant attention from economists.¹⁰³ In the rest of this dissertation it is endeavoured to put the generalization on a solid empirical footing and ask how the trend can be explained and evaluated from an economic perspective. Some of the implications of this perspective for the analysis of social security in developing countries and specifically South Africa are also looked at.

In spite of the general validity of the generalization, it must be qualified in a number of ways. Firstly, the trend is most obvious in the case of Western Europe since the middle of the nineteenth century and accelerated markedly after World War Two, but it also applies to the United States, especially in the field of secondary education. During the twentieth century the same tendency was also visible in Latin America and in Africa.

Secondly, it should be noted that it is not being argued that economic development is the most important causal factor explaining increased state activity in the field of the social services. Many other factors, sometimes closely related to economic development, such as the level and process of state formation, the intensity of the class struggle, changing ideas and the rate of democratisation are clearly also important. Association of two factors should not be seen as indicating causation. In Chapter 4 the possible interrelationships between economic development and social policy will be analyzed.

This generalization further does not imply certain iron laws of socio-economic development

¹⁰²Aharoni (1977:60).

¹⁰³See especially Ahmad, *et al.* (eds.) (1991).

and the eventual convergence of social policy in different countries. It is clear that different countries introduced more extensive policy at different phases in their development process and that systems of social provision differ significantly even between countries at the same level of development. The systems of these countries differ importantly with regard to the space left for non-state institutions, the level of fragmentation of the system and the objectives of social provision. In spite of the diversity, also in terms of expenditure levels, an increasing extent of government intervention cannot be doubted. Any systematic explanation of this growth should, however, also be able to explain the diversity.

Thirdly, changes in the world economy since the 1970's and the resurgence of conservative economic ideas led to a critical reappraisal of the role of the state in the economy and attacks on important aspects of the welfare state. This might limit the relevance of the above generalization for developed countries after the 1970's and might have an effect on future developments in the developing countries. It should, however, be remembered that social policy is being focused on here and not government activity in other productive spheres. With regard to social spending Alber's view that developments since the 1970's, and especially curtailments in spending, should be seen as "a phase of consolidation rather than of dismantling" and "that social outlays continued to grow ..., but were now brought into closer correspondence with the growth rates of the economy"¹⁰⁴ seems to be generalizable to other industrialized countries. The hypothesis does, however, not imply that future structural and economic changes might not reverse the hypothesized trend.

¹⁰⁴Alber (1986:117).

CHAPTER 2 THE GROWTH OF STATE PROVISION OF SOCIAL SECURITY

2.1 Introduction

The central generalization of this study is that as economic development progresses beyond a certain level, there is a tendency for the provision of social services to be reassigned from other institutions to the state. The objective of this chapter is to advance some evidence to support this hypothesis.

A decisive analysis of the hypothesis would need a comparison of the extent of state provision of the different services providing social security with the provision by other institutions, at various times for different countries. In addition to such a time series analysis of changing provision in specific countries, a cross-section analysis, comparing the method of provision of countries at different levels of economic development, could be used. A number of obstacles make such an appraisal problematical. With regard to the time-series analysis there are problems of data availability as well as conceptual problems. Quite often the problem of data availability relates to conceptual ambiguities. In addition to these conceptual and data difficulties, cross-section analyses have to deal with the issue of comparability of information for countries with diverse, and often unique, institutions and socio-political and economic systems.

In the first section of this chapter (2.2) a number of problems related to identifying and comparing the sources of service provision are discussed. The discussion indicates the difficulty involved in making an exhaustive direct analysis of changing provision and, together with Section 2.3, provides the motivation for the indirect approach that is followed in the two subsequent sections. This analysis of concepts and problems is also relevant for the treatment of expenditure on social provision in South Africa in Chapter 5. Section 2.3 discusses some examples of direct comparisons of changing provision of certain services by different institutions. There are few such detailed studies available. The available studies further cover shorter periods than are needed and only a small number of the relevant services. A conclusive study using such direct comparisons is therefore not possible. For these reasons Section 2.4 examines the growth of government expenditure and the different components of government expenditure relative to total expenditure for a number of coun-

tries and groups of countries. This provides evidence on the growth of government and some indirect evidence on the reassignment of functions. Section 2.5 describes the extent of state provision in the United Kingdom and the former West Germany in order to illustrate the comprehensiveness of contemporary state provision and its extent relative to the situation at the turn of the century and earlier.

2.2 Problems related to measuring the relative role of state provision

2.2.1 The meaning of government provision

In some cases the very basic distinction between public and private provision, or between the provision by the state and provision by other institutions, may become obscure. This becomes clear when it is realized that "state provision" can mean many things. It can denote either production of a service, or financing (subsidization of the consumption and/or the production of a service), or the regulation of the consumption and/or production.¹ Many permutations of these basic possibilities can be foreseen and are actually found in real economies. Table 2.1, which is redrawn from Barr and does not include regulation as a complicating factor, gives some idea of the possibilities.

Table 2.1: Combinations of private and public provision

		PRODUCTION	
		Private	Public
FINANCE	Private	Food	Commuter train transport Postal services (predominantly)
	Public	Educational inputs (books, etc.)	Hospital services for the poor Primary and secondary education

Source: Barr (1987:94, Table 4.1). Examples refer to South Africa

One ambiguous situation is where goods or services are produced by the private sector but financed by government, such as food bought with food stamps or transfer incomes. Another possibility which is difficult to classify is where production and financing are private but with consumption, or participation, either compulsory or heavily regulated by the state.²

¹Barr (1987:94).

²Aharoni (1977:50-51).

Examples of the latter are retirement schemes financed by individuals (through contributions) which are, however, compulsory and also administered by the state, and the government regulation of private pensions.³ Unemployment insurance in most countries is normally provided by the state but financed by the individual employers and employees.

Tax expenditures also entail such a mix of private and public provision. These tax concessions, which require the purchase of certain services (for example, pension benefits) or responsibilities (for example, dependent children), represent significant implicit subsidies. They are found to a significant extent in most economies. Many privately produced and procured goods are in this way "financed" by the state by changing their relative costs.

The above definitional problems reflect the fact that government output in the sense of goods and services underestimates the influence of the state on the economy and in specific economic spheres, because it excludes the effect of the state through "rules and regulations".⁴ Looking only at conventional output ignores the correct view that the "true output of governments are (actually) policies" and that focusing only on goods and services implies including only the "accounting budget" of government. To this should be added "the difference between what citizens buy as a result of the legislation and what they would have otherwise freely purchased". Put differently, "the difference between the price of the good that citizens are forced to buy and what it is worth to them" should be added to normal estimates of state expenditure.⁵ Only after "addition" of this more abstract type of output can we hope to establish the "true" extent of government intervention in the economy.

Estimating this so-called "economic budget" of the state is, however, impossible.⁶ It not only raises the intractable questions of incidence, but also requires precarious inferences about the exact indirect effects of government policies. Therefore it is necessary to focus on government output of goods and services. The implications can be serious. It is clearly conceivable that the effect of non-quantifiable aspects of government intervention may

³Atkinson and Stiglitz (1980:15).

⁴Mohr and Rogers (1991:66).

⁵Breton (1974:16-20).

⁶Aharoni (1977:48) refers to the absence of an unambiguous measure of public output.

outweigh the effects of government provision of what is conventionally called goods and services.⁷

2.2.2 The valuation of output

Even after accepting the need to focus only on a narrow definition of government output, serious further problems remain. One such problem relates to the valuation of government output. Because goods produced by governments, or similar types of products, are seldom traded in markets, market prices cannot be used as an indication of "individuals' relative evaluation of different commodities".⁸ As the only viable yardstick of the value of government output, some measure of government expenditure is normally employed. This approach implies measuring the value of government output in terms of its cost of production or in terms of input costs (cost of resources). As McGrath remarks, this approach is based on a very problematic assumption, namely that there is a "unique relationship between value and cost".⁹

Many factors such as the likelihood of wastage in government production and the disregard of the subjective preferences of individuals might lead to the cost of production providing an overestimate of the value of government expenditure. On the other hand, the fact that government provision of services providing social security might provide significant external benefits, or may be closer in nature to investment than to consumption, will result in an overestimate of the cost of government provision and therefore an underestimate of its value.

Numerous factors can thus disturb correspondence between value and cost. There seems, however, to be little alternative to focusing on government expenditure as an indication of the value of government output and by implication as an indicator of the relative role of a

⁷In Chapter 5 the South African example of progressive income redistribution through conventional government output most probably being neutralized by implicit taxes (as a result of restrictions) on the poor is mentioned.

⁸Atkinson and Stiglitz (1980:16).

⁹McGrath (1979:5).

government in the economy and in the production of certain services.¹⁰ Seeing greater per capita state expenditure, or greater state expenditure relative to total production in the economy, on a specific service as an indicator of the extent or adequacy of state effort should be guarded against. Such evaluation of effort will have to take into account provision of the service by other institutions in society as well as the problems of inefficiency in provision and the maldistribution of benefits. Table 2.2 compares health inputs to health "outputs". The incongruity between inputs and outputs, and the resulting dangers in equating level of expenditure to value and effort, are especially clear in a few cases. The comparison between the United Kingdom and the United States is well-known and shows widely differing inputs (total private and public health spending as a percentage of GDP) providing more or less the same outputs. Relative to the measure of input, health status in South Africa also is comparatively low.

The problem of valuation is of course not limited only to government output. In the same way problems arise about the exact nature of the goods and services provided by less formal institutions such as households and communities and the related difficulty of valuing these outputs. In other words, problems arise when trying to identify and categorize the products (goods and services) of certain institutions and to find an accurate value or opportunity cost for these products. In addition, very little systematic information exists about the activities of less formal institutions.¹¹

These factors leave us with little clarity and even less hard evidence on the total extent of provision of the relevant services. As a result there is also no norm against which changing government provision can be compared. A pertinent example is the measurement of the contribution of different institutions to schooling or education, which is an important aspect of child care. Firstly, it is impossible to put a value on the inputs at home which are complementary to schooling and which are necessary to make it effective. Furthermore, estimating an important part of opportunity cost of schooling - namely earnings or productive

¹⁰McGrath (1979:5) and Atkinson and Stiglitz (1980:16).

¹¹In the case of Japan, for example, Ernst (1982:561) says that "(t)he benefits and services rendered by 'intermediate structures' between the state and the individual ... are nowhere enumerated".

contribution foregone - raises substantial, if not insurmountable problems.¹² The deeper underlying problem is the lack of an acceptable measure of value in the case of goods and services not exchanged in the market. The problem is of course even more fundamental in that market evaluation can also be viewed as being essentially arbitrary, based as it is on a non-rational or incidental income and asset distribution.

Table 2.2: Health expenditure and health status - 1989

Country	Life expectancy at birth (years)	Infant mortality (per 1000 live births)	Health spending as a percentage of GDP	Doctors per 10,000 population
Japan	79	4	6.7	16
Germany	75	8	9.2	30
USA	76	10	11.8	23
Britain	76	9	5.8	14
France	77	7	9.7	30
Canada	77	7	3.7	22
Holland	77	7	9.3	24
S.A.	62	68	5.9*	6**

*Refers to 1984/85 (Hopper and Taylor).
 **Refers to 1980 (Savage and Benatar).
 Sources: World Bank (1991); *The Economist*, July 6, 1991, Survey p.5; Hopper and Taylor (1987); Savage and Benatar (1990:158).

2.2.3 Defining the public sector

A more manageable problem is to decide which institutions' expenditure to include as "government" expenditure. Nevertheless, a lack of clarity on which definition is being used may lead to incorrect conclusions, especially when working comparatively. The most common concept used in this regard is *general government expenditure* which refers to the non-commercial activities of all central government departments and related bodies and the non-commercial activities of regional and local governments (see Figure 2.1).¹³ The concept *public authorities* is wider than general government in that the expenditure of government business enterprises is also included. These enterprises normally sell their services to the public, but are under direct ministerial and departmental control. Examples are the South African Transport Services and the Department of Post and Telecommunications. The widest concept of government expenditure is total *public sector expenditure*

¹²See Trotter (1988).

¹³Van der Berg (1991a:4).

which includes the expenditures of the public authorities as well as that of the public corporations. Public corporations are businesses in which the government is an important shareholder, but which do not fall under either direct ministerial control or parliamentary budget control.¹⁴ Also important is to establish whether extra-budgetary accounts and funds are included under central government expenditure, and how important lower levels of government are. This is especially the case in federal systems.¹⁵

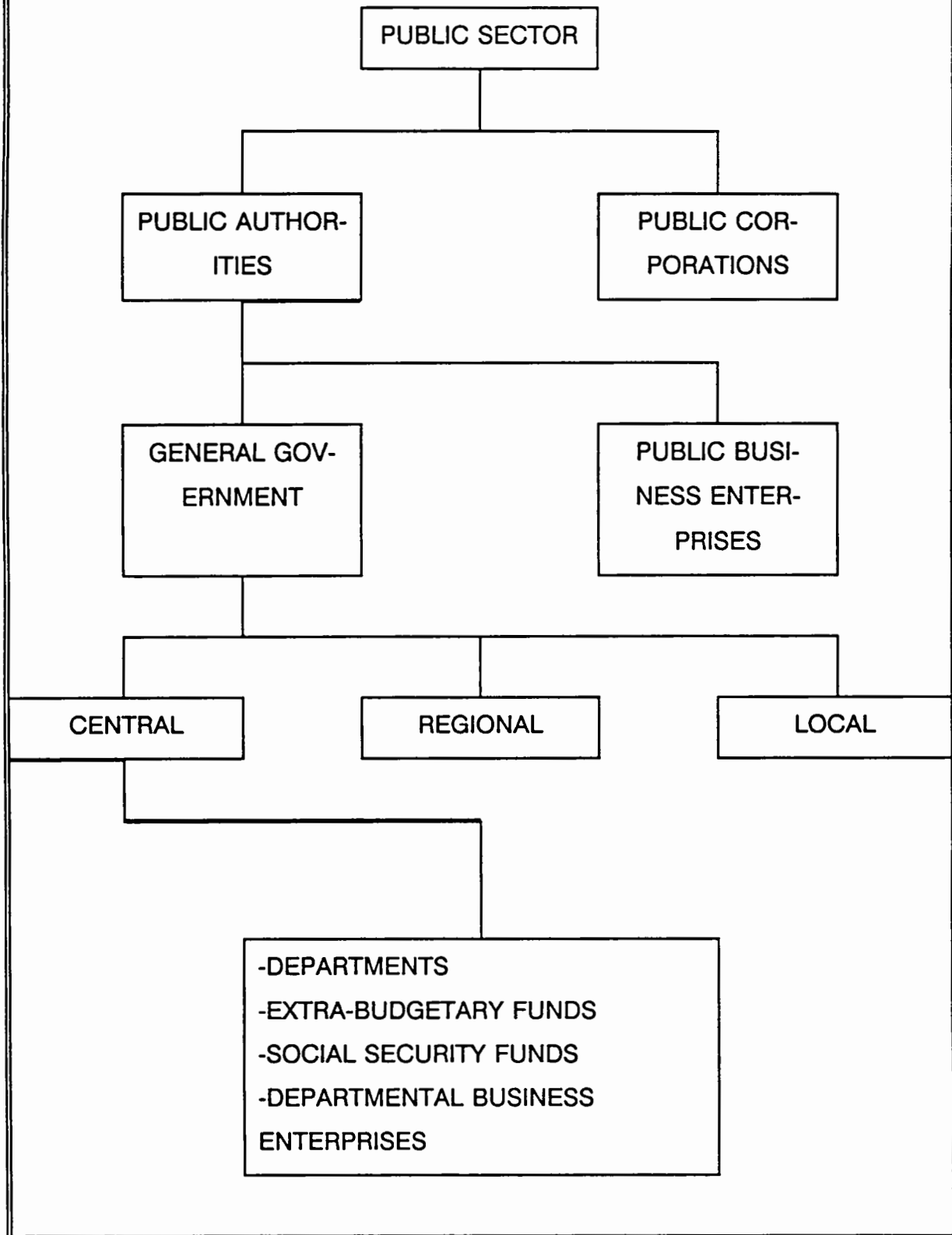
Government expenditures are ordinarily classified according to their economic nature, the type of good or service procured or the function or objective of the expenditure. The most important economic distinction is that which exists between current expenditures and capital expenditures. Trends in the relative importance of capital and current expenditure are viewed as important under the assumption that capital expenditures will have a greater impact on development prospects and thus future well-being.¹⁶ Another important
(continued on p.41)

¹⁴See Van der Berg (1991a:3-4), Mohr and Rogers (1991:67) and Mohr *et al.* (1989:34-35).

¹⁵See World Bank (1990:250). One example of the possible confusion can be seen when comparing World Bank figures with data from the Organization for Economic Cooperation and Development. Although definitions are given in most cases, the scope for confusion is immense. For 1986 The World Bank (1988:269) reported central government revenue for the United Kingdom and Japan as equal to 37.9 per cent and 12.6 per cent of GNP respectively (with the figure for Japan referring only to budgetary data). OECD figures put general government receipts for the two countries in 1985 relative to GDP at 42.8 per cent and 31.2 per cent respectively (Mueller, 1989:322, Table 17.2). This shows what difference it can make if different definitions are used.

¹⁶This view can be questioned. It tends to overestimate the role of physical capital accumulation in the development process at the cost of investment in human capital. Human capital is often safeguarded and accumulated through "exhaustive" government expenditures such as salaries of teachers, etcetera. Further it relies on the presumption that all aspects of development can only be achieved through high economic growth. Recent evidence indicates that significant advances in basic health, literacy, longevity, etcetera need not wait for growth through physical capital accumulation.

FIGURE 2.1 COMPOSITION OF THE PUBLIC SECTOR¹⁷



¹⁷For sources see footnote 14.

economic distinction exists between *resource use* by government and *resource transfers* by government. Resource use refers to government consumption expenditures and government gross domestic fixed investment. Government consumption includes expenditure by the government on inputs and productive services and is sometimes referred to as "exhaustive government expenditure"¹⁸. Transfers refer to monetary payments to households, subsidies to private firms, current or capital monetary transfers to other government institutions and interest payments by government.

Some ambiguities arise if transfers are included in total government expenditure when comparing it to total production in the society. This follows from the fact that transfers do not imply resource use, but merely a reallocation of purchasing power which is not included in the denominator (total production). Inclusion of transfers may thus, for certain purposes, exaggerate the role of government in the economy. Furthermore, as Atkinson and Stiglitz have argued with reference to the similarities between tax expenditures and other state transfers, the definition of transfers is essentially arbitrary.¹⁹ To be consistent the inclusion of transfers should lead to the inclusion of tax expenditures as well.

Although the ratio may lose some economic meaning if transfers are included in the numerator, excluding these transfers will lead to a further underestimate of the influence of the government on the economy.²⁰ The decision on whether to include transfers or not should thus be made with reference to the objective of the comparison.

The most important functions according to which government expenditures can be classified are general administration, protection services, economic services and social services. Some expenditures may be difficult to classify according to objectives so that a category of unallocable output is normally found. One example of an expenditure that is difficult to classify in a functional sense is public debt costs.

¹⁸Aharoni (1977:60).

¹⁹Atkinson and Stiglitz (1980:16).

²⁰Atkinson and Stiglitz (1980:16) and Aharoni (1977:60).

to a significant share of average income.²⁴

It is clear that state and private transfers often have the same objectives so that changes in the level of public transfers will affect private transfers and vice versa. The hypothesis implies that state transfers will crowd out private transfers or, alternatively, come in the place of private transfers which have declined for one or other reason. Available evidence, which is clearly insufficient, seems not to contradict such an interpretation. The evidence is, however, not conclusive.

Lampman and Smeeding studied the changing importance of inter-family and government transfers for income maintenance, food and housing relative to personal income in the United States. Their data indicate that between 1935/6 and 1979 total inter-family transfers declined from 6.5 percent of personal income to 5.0 per cent. Over the same period total government transfers related to the same services grew from 2.8 to 11.2 per cent of personal income. There was thus, on these figures, a reversal of importance with government transfers increasing from 30 per cent to 70 per cent of total government and inter-family transfers. They conclude, tentatively, that "in terms of compositional change, there does seem to be substitution [between government and private transfers] as we have measured it".²⁵

Cox's studies for Peru and the United States also suggest that private transfers would have been higher by significant percentages in the absence of certain public transfers.²⁶ Data used by Ruggles and Ruggles, pertaining to social and private insurance in the United States, indicate that between 1969 and 1975 government transfers in this regard have been growing more rapidly than relevant employee benefits and much faster than benefits from personal insurance. Over this period, during which personal income increased 3.6 times, government transfers increased 6.4 times, employee benefits 5.4 times and benefits from personal insurance 2.5 times. They interpret this as a sign of government and employers

²⁴Cox and Jimenez (1990:206-207).

²⁵Lampman and Smeeding (1983:52-53).

²⁶Cox and Jimenez (1990:216).

assuming responsibility to some extent for social protection.²⁷

In spite of their suggestiveness, these studies cannot provide a final answer. Important research on the changing relationships between different types of transfers over time and how they interact still has to be done. Because of the lack and inconclusiveness of current information more indirect evidence and general theoretical arguments will have to suffice.

2.4 Macroeconomic evidence on the role of state provision

An alternative approach to the question of the relative role of government in the different spheres is to look at changing total government expenditure relative to total production in the economy and at the changing composition of this government expenditure. Establishing the extent of the growth of state intervention in the economy and isolating the categories responsible for these shifts provide an indication of whether the state has been assuming new responsibilities or has been taking over functions from other institutions, and in which spheres this has been taking place. An increase in the share of total resources or resources in a specific category allocated by the state can then be seen as preliminary evidence of changing systems of provision or even "nationalization". Changing composition of government expenditure can also be seen as indicating shifts in the priorities of the state.

It should be remembered that many of the conceptual ambiguities mentioned also hold for an indirect approach to measurement. Specifically, the discussion is based on a narrow definition of government output as a result of the fact that the effect of policies and implicit subsidies and taxes are not taken into account. It is also assumed that the level of government expenditure gives a good indication of the value of government output.

In evaluating especially the cross-section figures it is furthermore important to take note of the dangers involved in the comparisons of levels of expenditure across countries. The variety of definitions that can be used as well as the different institutional structures can result in available figures providing misleading comparisons. As a result of this, great care

²⁷Ruggles and Ruggles (1983:373).

must be taken when making deductions on the basis of comparative figures.²⁸

The most commonly used measure of the relative size of the public sector and its importance in different spheres is a ratio comparing some aggregate of government expenditure to total production in the economy. This ratio is then seen as providing "a useful indication of the overall influence of the public sector in the economy as a whole".²⁹ As denominator in this fraction, gross domestic product at market prices (GDP_{mp}), also referred to as expenditure on gross domestic product, is normally used.³⁰ The numerator is then one of the possible definitions of the role of government identified above or a specific category of government expenditure.

Time series data comparing government expenditure to total output for most OECD countries show a continual growth of the relative role of the government sector since about 1900, but probably for the last two centuries, with an acceleration of government growth after World War Two.³¹ One set of evidence on this point is that tax levels as a percentage of national income grew from 14.96 per cent in France, 7.99 per cent in Germany and 9.99 per cent in the United Kingdom in 1900-01 to 20.01 per cent, 29.21 per cent and 24.77 per cent respectively in 1924-25.³² In 1989 central government current revenue as a percentage of GNP for these three countries stood at 40.9 per cent, 29.0 per cent and 35.6 per cent respectively.³³ In the post-war period the average level of government expenditure to GDP for 16 developed countries changed from 28.9 per cent in 1953/54 to 39.4 per cent in 1973/74.³⁴ The average ratio of general government expenditure to GDP at current prices in OECD countries changed from 26.6 per cent in 1960 to 47.3 per cent in 1985.³⁵ Evi-

²⁸See I.L.O. (1988:6-7), World Bank (1991:278) and Van der Berg (1989d:16-17).

²⁹Beeton (1987:927).

³⁰See Beeton (1987:927-928) for a motivation of this choice.

³¹Mueller (1989:320-322) and World Bank (1983:44-46).

³²Mueller (1989:323, Table 17.3).

³³World Bank (1991:227). Note that these refer to *central* government expenditure.

³⁴Mueller (1989:336, Table 17.5).

³⁵Mueller (1989:322, Table 17.2).

dence for the United States shows that federal expenditures changed from 2.6 per cent of GNP in 1902 to 22.5 per cent in 1937, while total government expenditure (federal, state and local) changed from 7.7 per cent to 35.0 per cent of GNP over the same time.³⁶ These increasing ratios were invariably associated with increasing per capita incomes.

Over the much shorter period since the 1970's the upward trend of central government expenditure relative to GNP also holds for middle-income economies as a group as defined by the World Bank (weighted average of 21.7 per cent in 1972 to 27.5 per cent in 1986), as well as for upper middle-income countries taken as a group (weighted average of 21.6 per cent in 1972 to 28.3 per cent in 1986).³⁷ According to one estimate these figures must be compared with government revenue relative to GNP of about 5 per cent in developing countries in the late 1800's.³⁸ In spite of this general positive relationship it has been indicated that these averages hide wide variations in the ratios and even declines of the ratio in some countries.³⁹ It would, however, be fair to conclude that higher levels of development in a country (developed or developing) are normally associated with a relatively bigger public sector.

Cross-section evidence also indicates that government expenditure and social services provision are normally positively related to per capita income. Borchherding's figures show that taxes and social security contributions as a percentage of GNP 1965 through 1968 averaged 11.8 per cent for 11 of the poorest countries (low 8.6 per cent; high 18.2 per cent) and 36.9 per cent for 11 of the richest countries (low 20.7 per cent; high 46.9 per cent).⁴⁰ These higher expenditure ratios for governments in developed countries are also reflected in World Bank figures where the average of total central government expenditure divided by GNP in 1986 was indicated as 20.3 per cent for low-income countries, 27.5 per cent for

³⁶Borchherding (1985:361, Table 2). For additional evidence see Gabriel and Loderer (1988:267).

³⁷World Bank (1988:266-267).

³⁸World Bank (1988:46).

³⁹World Bank (1988:46).

⁴⁰Borchherding (1985:360).

middle-income countries and 28.6 per cent for industrial market economies.⁴¹

The difference in the importance of the state between developed and developing countries seems to be systematically related to the relatively high level of social security expenditures, and especially government transfers to households, in developed countries. This becomes evident when looking at the factors responsible for the growth of government expenditure in developed countries and also the composition of government expenditure and revenue in the developed countries. One study has concluded that more than half of the difference in the government expenditure ratios between the richest and the poorest countries "are accounted for by current transfer payments to households".⁴²

The World Bank has also judged that the lower percentage of central government expenditure relative to GNP in developing countries is the result, mainly, of "the industrial countries' higher level of transfers for social security and welfare".⁴³ In the USA, for example, "transfer spending" grew at an annual average rate of 6.3 per cent between 1902 and 1978, while all government expenditure grew by only 5.2 per cent per annum and the economy by only about 3 per cent. "Welfare expenditures" grew at about 6.8 per cent.⁴⁴ For 14 developed countries transfers relative to GDP changed from an average of 11.9 per cent in 1953-54 to 18.8 per cent in 1973-74, while the relative ratios for the United States increased from 5.5 per cent to 11 per cent over the same period.⁴⁵ Gabriel and Loderer quote evidence indicating that between 1950 and 1970 the median value of government transfers relative to national income increased by 160 per cent in 14 OECD countries. During the same period the remaining government expenditures relative to national income

⁴¹World Bank (1988:267). The difference between middle-income and industrial market economies is less accentuated in the quoted figures because of the inclusion of certain former communist countries (Hungary, Poland), European countries (Greece) and special cases (Israel) which have very high expenditure ratios. Similar cross-section trends have been found by earlier, more systematic studies. See Aharoni (1977:59-60).

⁴²Aharoni (1977:60) reporting on the findings of Thorn.

⁴³World Bank (1988:47).

⁴⁴Borcherding (1985:363, Table 3 and 364). The same patterns of relative growth holds for the United Kingdom and West-Germany.

⁴⁵Mueller (1989:336, Table 17.5).

increased by only 59 per cent.⁴⁶

Tax ratios also reflect the fact that welfare expenditures account for a large part, although not all, of the divergences in expenditure ratios between rich and poor countries. Aharoni has estimated that the average tax ratio (to GNP) for less developed countries in the early 1970's was 14 per cent excluding social security taxes and 15 per cent including social security taxes. For developed countries the two ratios were 25 and 32 per cent respectively. This shows that a significant part of the gap between developed and developing countries with regard to government expenditure and revenue derives from social security expenditure and financing.⁴⁷

Expenditures promoting social security are also much lower on average as a percentage of total central government expenditures in the case of poor countries than in the case of rich countries. In 1986 the weighted average expenditure on health, education, housing, amenities, social security and welfare relative to total central government expenditure was, for low income countries, 19.2 per cent, for middle-income countries 31.2 per cent and for the industrial market economies 56.4 per cent.⁴⁸ Using a slightly narrower definition of social security and figures for 1985, Von Braun shows that central government spending on social security as a percentage of the total central government expenditure is higher, on average, in higher income countries. This is illustrated by Table 2.3 below, reproduced from Von Braun.

Another important conclusion flowing from the data is that "the relative spending on social security tends to increase drastically only when economies reach the upper middle-income level".⁴⁹ Von Braun's analysis also shows clearly that there is a positive relationship between income level and state expenditure on social security. Relating social expenditure per capita and GNP per capita for different African and other developing countries he finds that this positive relationship does not only hold when comparing developed and developing

⁴⁶Gabriel and Loderer (1988:269-270).

⁴⁷Aharoni (1977:61).

⁴⁸World Bank (1988:266-267).

⁴⁹Von Braun (1991:398).

countries, but that it also holds when only developing countries are included in the sample, and when only African countries are included.⁵⁰

Table 2.3: Central government spending on social security, 1995

	Central government spending on social security as a percentage of total central government expenditure
Sub-Saharan Africa	10.7
Low-income countries	10.9
Lower middle-income countries	13.6
Upper middle-income countries	23.6
Industrial market economies	46.9

Source: Von Braun (1991:298, Table 9.1). Based on published World Bank figures

These figures indicate that as per capita income increases, government expenditures become more important relative to total income. A major part of this expenditure growth can be related to increasing state expenditure on services providing social security. State social security expenditure thus becomes more important relative to total state expenditure as development progresses. Together with the fact that total state expenditure grows faster than total income in the economy, this implies that state social expenditure will increase relative to the size of the economy as development progresses. Although this is not conclusive evidence on the shift of functions from other organisations to the state, it does illustrate that social security does become a more important concern of government as a country develops. This could either be as a result of governments providing "new" services or because of governments taking over functions from other institutions. The changing extent of provision by these other institutions, cannot be established, so it is not possible, from this evidence, to determine what provided the impetus for government growth in this field. The next chapter argues that it is possible to construct an economic explanation implying state social expenditure growth as a result of the state taking over as supplier from other institutions.

It is important to note that in spite of this general trend, specific growth rates and levels of expenditure differ significantly between countries which are more or less at the same level of economic development. This shows that per capita income is not the only determinant

⁵⁰Von Braun (1991:398-399).

of welfare expenditure and highlights the dangers inherent in postulating a simple "stages theory" of the growth of state social provision.

2.5 Coverage of risks and population in the United Kingdom and Germany

This section looks at the current system of social provision in Germany and the United Kingdom and compares the comprehensiveness of the current system with the dearth of government institutions providing such services in the late 1800's. The discussion provides further indirect evidence on the increasing role of the state in the provision of social security as well as some evidence on institutions which were replaced. These two countries can of course not be seen as representative of all welfare states. They do, however, provide an illustration of the comprehensiveness of social provision in what must be viewed as countries with some of the most extensive systems of welfare provisions. They are good examples of countries with a high level of per capita income. Substantial information is also available on the development of these two welfare states. In addition they show the variety of mechanisms, even in high income countries, which can be used to provide similar needs.

Two general conclusions seem clear. Firstly, in the fields of income maintenance, income support, education and health, regulation, production and financing by the state is extensive. These governments are the dominant suppliers in the specific fields in these countries. Secondly, there is definite evidence that some of these services were earlier provided by other institutions in these societies which makes it possible to interpret the growth of government in these spheres as in part a reassignment of certain functions from the "private sector" (households, churches, business enterprises) to the public sector.

2.5.1 The United Kingdom

The mechanisms of social provision in the United Kingdom illustrate many of the common characteristics of the modern welfare state. When compared to other Western European countries they also underline the diversity of different systems of social and welfare provisions. In spite of the ongoing debate about the real achievements of the British welfare state, it is clear that the current situation is in marked contrast to the situation at the turn of the century.

The social insurance and assistance programmes in the United Kingdom are universal in coverage of persons and comprehensive in their coverage of risks. The different income support programmes aim at providing the minimum income needed for subsistence, irrespective of employment situation or status, and also at assisting households in the fulfilment of certain functions such as child rearing. There is a low level of fragmentation of services (no special programmes for different categories of people) and administration is unified in a single Department of Health and Social Security. The same universality of access applies to the provision of education and health. Although there is room for private provision of these services, the state is responsible for at least minimum levels; private organization only comes into play at higher levels of provision or if preferred by consumers.

The growth of government supply is to an extent reflected in aggregate expenditure figures. Total government expenditure as a percentage of gross domestic product rose steadily from the beginning of the century to about 47,2 per cent in 1980.⁵¹ Social and welfare spending as a percentage of gross national product rose from 4 per cent in 1910 to 29 per cent in 1975.⁵² Social expenditure grew faster than other government expenditures and has since 1972 comprised more than 50 per cent of total government expenditure.⁵³ Income maintenance and income support comprise the biggest part of social expenditure (40 per cent in 1980), with education and health second (20-25 per cent each), and housing varying between 12 and 20 per cent since 1950. Personal welfare services have been growing but still take up less than 4 per cent of the social expenditure budget.⁵⁴

Current social provision clearly represents a product of gradual growth since the 1800's. The outcome and the nature of the change over the last decade is highlighted by Mishra's comparison of "welfare" in Britain around 1860 with that around 1970 (see Table 2.4).⁵⁵

⁵¹Parry (1986:163).

⁵²Gough (1989:278).

⁵³Parry (1986:166).

⁵⁴Parry (1986:167). Estimated figures for 1987 were broadly in line with these shares. See Barr (1987:6, Table 1.1).

⁵⁵Mishra (1977:92).

The gradual growth of the British welfare state has often been divided into a number of phases with different periodisations resulting from different perspectives. Barr distinguishes four phases with reference especially to events in the field of income support and poor relief.⁵⁶ Papadakis and Taylor-Gooby identify five stages according to the "stance of government".⁵⁷

Table 2.4: Welfare provision in Britain

	c.1860	c.1970
1.State services		
Income security	None	Old age, invalidity and survivors' pensions; sickness, maternity and work injury and unemployment benefits (virtually universal); Universal family allowances; national assistance
Medical care	None with the exception of lunatic asylums, vaccinations and environmental health services	Comprehensive and free health care for the whole population
Education	None with the exception of educational grant (parliamentary) to religious bodies	Free and compulsory ten-year education; secondary and higher education with maintenance grants
Housing	None except for poor relief	Over one quarter of all housing publicly provided, largely at subsidized rent; rent regulation in private sector
2.Proportion of national income spent on state welfare	1 to 1.5 per cent	17.4 per cent
3.Non-statutory welfare	Charitable and mutual aid (friendly societies) predominant	Occupational benefits; charitable and mutual aid prevalent
Source: Mishra (1977:92, Table 2).		

These different periodisations all describe a shift from market reverence and punitive relief before 1870 to increased acceptance of the need for coordinated state action in the spheres of income support, health, education and welfare. These different fields of social provision will be discussed separately in order to give an idea of current provision and its historical origins. This discussion is based on Barr, Kaim-Caudle, Parry and Papadakis and Taylor-

⁵⁶Barr (1987:9-21). For him separate phases were introduced with the Poor Law Act of 1601, the Poor Law Amendment Act of 1834, the "Liberal reforms" between 1906 and 1914 and finally the post-war legislation of 1944 to 1948.

⁵⁷Papadakis and Taylor-Gooby (1987:3).

Gooby.⁵⁸

(a) *Income support*

In the field of income support, both with regard to life cycle changes as well as with regard to more permanent destitution, the major government institution before 1900 was the infamous poor law system which provided "relief within a framework of repression".⁵⁹ Especially after the 1834 Poor Law Amendment Act, this form of relief became notorious for the principle of "less eligibility" and the so-called "workhouse test".⁶⁰ The provisions of the poor law provided some relief, administered and financed initially by local communities, but after 1834 administration became more centralized. Because of the insufficiency of this scheme of state provision the Poor Law Commission of 1909 reported that "... the majority of commissioners [regional representatives of the control board] still looked to charity and private voluntary action as the first line of defense against poverty".⁶¹ The poor law authorities also tried to get the principles of the poor laws applied by the voluntary organisations and gave some support for and attempted to coordinate voluntary action. In the latter part of the 1800's there was also strong growth of self-help organisations to contend with the risks of industrial society, and "friendly societies, savings clubs and trade union insurance ... became a major source of support in sickness, unemployment and old age for the upper working class".⁶²

The early 1900's, which Barr refers to as the "period of Liberal reforms"⁶³, saw the introduction of legislation reflecting a major change in the approach to poverty. The first change came with the 1908 Old Pension Act which Rimlinger described as "the first major

⁵⁸Barr (1987), Kaim-Caudle (1973), Parry (1936) and Papadakis and Taylor-Gooby (1987).

⁵⁹S. and B. Webb as quoted by Rimlinger (1971:18).

⁶⁰The principle of "less eligibility" refers to the objective that the able-bodied should not receive benefits higher than those of the working person while the "workhouse test" refers to the fact that relief was dependent on living in the (less than pleasant) workhouses. See Barr (1987:11-12)

⁶¹Rimlinger (1971:59). See also Papadakis and Taylor-Gooby (1987:4).

⁶²Papadakis and Taylor-Gooby (1987:4). See also Kaim-Caudle (1973:205).

⁶³Barr (1987:14).

break with the principles of 1834" (referring to the Poor Law Amendment Act of 1834).⁶⁴ The Pensions Act provided means tested assistance to those over 70 without contributory conditions. Good conduct during working life was, however, required.⁶⁵ This legislation, together with the National Insurance Act of 1911 represented, according to Parry, "(t)he first departure from minimalist welfare policy".⁶⁶ The National Insurance Act provided contributory unemployment benefits and health insurance to a limited group of workers. Parry argues that, in spite of the limited nature of these schemes, "the ideological principle was conceded, and the following 30 years saw the gradual relaxation and extension of eligibility".⁶⁷ The National Insurance legislation and National Health Service legislation of the 1940's finally "secure(d) an integrated public organization of the social services" and "...broke decisively with the tradition of public support to privately organized services".⁶⁸ In income support this implied "the fully fledged provision of a guaranteed national minimum", organized centrally and within a unified system.⁶⁹

Current state provision then provides extensive coverage of the population against most major risks. A distinction can be made between contributory benefits, normally referred to as social insurance, and social assistance benefits, which are usually means-tested. An additional category of cash grants are those referred to as categorical benefits.

The National Insurance Scheme provides for compulsory insurance for the whole workforce, including the self-employed. Benefits are paid on condition that earnings-related contributions, which are shared by employers and employees, were paid during the foregoing year. The benefits are normally flat-rate, the only exception being an optional earnings-related pension scheme. The insurance scheme provides benefits in the event of

⁶⁴Rimlinger (1971:59).

⁶⁵Barr (1987:16) and Papadakis and Taylor-Gooby (1987:106).

⁶⁶Parry (1986:159).

⁶⁷Parry (1986:159).

⁶⁸Parry (1986:160). Papadakis and Taylor-Gooby argue that this process led to "much of the Upper-working-class system of private and friendly society insurance [being] assimilated" in state structures. (1987:4),

⁶⁹Papadakis and Taylor-Gooby (1987:5).

sickness, occupational injuries, invalidity, unemployment, maternity and retirement. It also provides for a death grant and survivors' benefits. The programme is centrally administered through the Department of Health and Social Security. A small part of the programme is financed from general revenue.

Social assistance in the form of cash benefits as well as categorical benefits are also administered by the Department of Health and Social Security. The two most important programmes here are a cash child benefit to all mothers of children of pre-school and school-going age (which, among other things, replaced earlier tax relief) and "supplementary benefits" for those out of work in order to raise their income to an officially defined poverty line. A regular cash payment subject to a means test is also paid to the working poor (the so-called "Family Income Supplement"). Subsidized school meals and milk and higher education maintenance grants are also provided by the educational authorities.⁷⁰

Social assistance through personal welfare services are provided by integrated social service departments in the local authorities. These include residential care, day care, home service and meals for the elderly, provision for the physically and mentally handicapped and residential care for deprived children.

(b) Education

Presently school attendance in the United Kingdom is compulsory and free to the age of 16, while university education, to which access is regulated on the grounds of academic merit, is heavily subsidized (through payment of tuition fees from public funds and maintenance grants to students).⁷¹ While education is mostly financed from general government revenue, expenditures and administration are in the hands of local authorities. Only about 6 per cent of all pupils attend private schools.⁷²

State provision of education was a forerunner of other universal social programmes and was the only universal programme operating at the beginning of this century. Government

⁷⁰For a complete list of benefits see Barr (1987:176).

⁷¹Barr (1987:343 and 344).

⁷²Parry (1986:178).

intervention in education dates from the first half of the 1800's. Early interventions included enforcement of instruction to workers on the Factory Act⁷³ and grants in aid of voluntary school building and teacher training.⁷⁴ After the expansion of access to state education with the 1870 Education Act public access and compulsion was increased in stepwise fashion. Primary education was made compulsory and free in 1891 and assigned to local authorities in 1902⁷⁵ and the 1944 Education Act resulted in "secondary education for all".⁷⁶ State intervention also expanded from the early 1800's in other fields of child care such as prevention of abuse, adoption, medical inspection and subsidization of school meals.⁷⁷ This increased state provision did not take place in a vacuum but first developed alongside education provided by charities, religious groupings and other voluntary action. The state later took over the major responsibility for education from these intermediary institutions.⁷⁸

(c) *Health*

British citizens enjoy free access to medical treatment and most health service. These services are organized through the National Health Service and 14 Regional Health Authorities under the control of the Department of Health and Social Security. Delivery takes place through three branches of the National Health Service, namely primary health care (mostly via general practitioners), hospitals and community health care. Although private services are available, it has been estimated that more than 95 per cent of all people use the National Health Services in most fields of health provision, excepting dental health and the provision of spectacles.⁷⁹ Financing is largely from general government revenues, with

⁷³Papadakis and Taylor-Gooby (1987:72).

⁷⁴Barr (1987:13).

⁷⁵Parry (1986:159).

⁷⁶Papadakis and Taylor-Gooby (1987:72).

⁷⁷Barr (1987:16) and Papadakis and Taylor-Gooby (1987:4- 5).

⁷⁸See Papadakis and Taylor-Gooby (1987:4 and 72). They argue that the state came to "supplant and incorporate" most charitable and religious provision.

⁷⁹Kaim-Caudle (1973:318). Barr (1987:323) estimates that in recent years the private sector involved about 5 per cent of total health expenditure and provided about 2 per cent of hospital beds.

the rest coming from national insurance contributions (11 per cent) and from direct charges (3 per cent).⁸⁰

Once again, the unifying legislation for health care in 1948 represented the outcome of a lengthy process of growing state involvement and the final ascendancy of state provision over provision through intermediary structures. Although the state was involved in rule-making with regard to public health since 1848, provision of medical services by the early 1900's consisted of a mixed bag. Until 1911 only the poorest could receive free treatment, initially through Poor Law hospitals. Those who could afford it contributed to hospital schemes organized by voluntary organisations. After 1911 breadwinners in certain industries became part of a contributory medical insurance scheme as part of the National Insurance Scheme, while the situation for others (the poor and those not insured with the official scheme) remained unchanged until 1948.⁸¹

(d) Housing

Housing assistance in Britain is currently given through tax expenditure for mortgage interest relief, public housing construction and rent rebates on publicly owned housing. Public housing is often subsidized and rent and tenure control provide some relief related to privately provided housing.

State involvement in housing dates to the late nineteenth century with action normally driven by public health concerns.⁸² Intervention in the nineteenth century concentrated on regulation through enforcing minimum standards. This regulation created difficulties for the poor in acquiring accommodation. While "private philanthropy" helped to alleviate the problem, the state intervened in the early 1900's in order to affect supply and control prices. This intervention took the form of obligations placed on local authorities in terms of housing provision in 1919, central government subsidies to local authorities, rent controls in 1915 and tax relief from before World War Two.⁸³

⁸⁰Barr (1987:322).

⁸¹Barr (1987:17) and Papadakis and Taylor-Gooby (1987:41).

⁸²Barr (1987:379).

⁸³Barr (1987:19-20 and 379) and Papadakis and Taylor-Gooby (1987:136 and 148).

Evaluating the achievements and efficiency of the British welfare state cannot be done here. A number of statistics do, however, give an indication of the extent and importance of these measures. All people over 65 received retirement pensions in 1981, 52 per cent of the unemployed received unemployment benefits and 9.2 per cent of the population social assistance.⁸⁴ Average benefits as a percentage of average gross earnings was 38.8 per cent for retirement pensions, 36.1 per cent for unemployment/sickness benefits, 36.0 per cent for social assistance and 12 per cent for child allowances in 1981. In 1981 total government taxation and benefits lowered the income of the average household by about £700.⁸⁵

2.3.2 Germany⁸⁶

As in the case of the United Kingdom, the current German situation represents the result of a slow move towards state responsibility for income maintenance and improving and protecting human capital. Especially since the late 1800's the roles of public philanthropy, locally organized poor relief, the last vestiges of the manorial system and guilds and other self-help schemes were overtaken by compulsory, government regulated schemes. In the words of Rimlinger: "During the 1870's the balance of forces shifted decisively from self-help to state-help".⁸⁷ For the next 100 years state-help became more and more the rule. The origin of the German welfare state is normally traced to Bismarck's social insurance legislation of the 1880's although intervention in other fields and schemes with less extensive coverage predate these.⁸⁸

Currently the German system of social services provides the same universality and comprehensiveness as that of the United Kingdom. There are, however, important differences. While the UK system is primarily concerned with providing a basic minimum, the German system aims "to maintain the standard of living attained by the recipient during

⁸⁴Parry (1986:185).

⁸⁵Parry (1986:189).

⁸⁶This section relies extensively on Alber (1986) and Kaim-Caudle (1973).

⁸⁷Rimlinger (1971:107).

⁸⁸See Ringen (1987:29) and Van der Berg (1988:12).

his working life".⁸⁹ The extent of fragmentation of the social services, the decentralization of administrative responsibility to autonomous statutory bodies and the greater commitment to the insurance principle are also in stark contrast to social service provision in the United Kingdom. Furthermore, in spite of being a "late industrializer", Germany was a leader in the provision of compulsory education and the control of education by the state, as well as being the innovator in providing compulsory social insurance (dating from as early as 1883). The country did, however lag behind other countries in introducing, for example, child allowances and compulsory unemployment insurance.

The extensiveness of state provision is clearly reflected by the macro-economic indicators. Total public expenditure as a percentage of GDP increased from below 15 per cent in 1900 to close to 50 per cent in 1980, while total social expenditure increased from about 5 per cent of GDP in 1913 to around 30 per cent in 1980.⁹⁰ As Flora and Heidenheimer point out "social expenditure disproportionately shared in this tremendous increase" in government expenditure, rising from about 30 per cent of total public expenditure at the turn of the century to 62 per cent in 1960.⁹¹ Income maintenance expenditure comprised over 50 per cent of total social expenditure in 1980, health and education just under 20 per cent, housing about 3 per cent and benefits in kind and general social services about 8 per cent. The average real growth rate per annum of social expenditure between 1951 and 1983 was 6.3 per cent, while social security narrowly defined grew at 6.5 per cent per annum, state health expenditure at 6.9 per cent, housing at 3.5 per cent and education at 5.9 per cent.

(a) *Income support*

Old age and invalidity are catered for in Germany by autonomous bodies with representatives from employers and employees under close supervision of public authorities. There are separate schemes for workers, employees, miners, and farmers and two schemes for civil servants. These are organized either on a regional or national level. Membership of a scheme is compulsory, except for certain groups of self-employed people who are allowed to join schemes operated by professional associations. Old age, invalidity and survivors'

⁸⁹Alber (1980:5).

⁹⁰Alber (1986:9, Graph 1).

⁹¹Flora and Heidenheimer (1981:49).

pensions are paid conditional on contributions, which are proportional to earnings and shared by employers and employees. The state also makes a contribution to the funds (21 per cent in 1980), and transfers from other funds (eg. sickness and unemployment) accounted for about 3 per cent of receipts in 1980.⁹² The pension schemes aim at providing the main income of the beneficiary and to enable the beneficiary to maintain his or her standard of living after retirement.

Insurance against occupational injury (which is very widely defined and includes among other things, injury while travelling to and from work) is also compulsory, administered by occupational associations (statutory bodies) and aim at compensation for loss of earnings capacity as well as providing extensive rehabilitation and health care. It is financed by employers through a type of payroll tax with contributions depending on the risk-rating of the industry and the merit-rating of the individual firm.

Compulsory unemployment insurance is administered by the Federal Labour Office. It is financed by earnings-related contributions from employers and employees. Benefits are paid for a maximum of 52 weeks and based on previous earnings up to a certain income limit. Unemployment assistance is available for those who do not qualify in terms of the insurance scheme and is financed from general revenues. Since 1969 there has been a shift away from cash assistance in times of unemployment towards more active labour market policy in the form of training, labour exchanges, counselling and subsidies for job creation.

In addition to unemployment assistance, further social assistance is rendered through programmes paying cash benefits to the needy not falling under any of the insurance schemes and through the normal services in kind to the handicapped, the old and the destitute young. The latter services are coordinated by local authorities and often provided by subsidized private organizations. A universal child allowance is paid to all families with children at a flat rate per child and is the responsibility of the federal government. Benefits under the different insurance schemes are also adjusted in order to take into account the family responsibilities of recipients (number of dependents, etcetera). Income maintenance is paid to single parents where the responsible parent does not meet his responsibilities, and education allowances are paid in respect of pupils and students under certain conditions.

⁹²Alber (1986:39, Table 3).

(b) *Education*

Free education is essentially administered by the different state governments although there is a high level of coordination and a strong central input regarding educational policy. As in the UK, compulsory education and state control was a forerunner of other social programmes. As Alber informs us: "The principle of compulsory education was introduced in Prussia as early as 1717, and had become effective in all Prussian territory by 1825. The Prussian state had gained effective control of the education system by 1872 after fierce battles with the Catholic Church".⁹³

(c) *Health*

Health services are provided free of charge by private producers under contract with the nearly 2000 autonomous health insurance funds which are financed by contributions from members. Contributions are earnings-related implying some redistribution to families with children and lower income groups.⁹⁴ Contributions are fixed by the funds within limits laid down by the state and membership is compulsory except for non-manual employees earning more than a certain income. The health insurance funds also pay cash benefits in the case of illness but the Wage Continuation Act of 1966 placed the responsibility on the employer to continue the normal wage for the first six weeks of illness. Small employers must insure themselves against this risk.

(d) *Housing*

Three types of housing assistance are provided, namely subsidies on housing construction by private firms, premiums on private savings for construction and housing allowances for families below a certain income level. Indirect subsidies through tax credits on mortgage payments are also provided.

A number of figures illustrate the extensiveness of state provision of welfare in Germany. In 1980 72.4 per cent of persons over 60 were receiving old age and invalidity pensions (civil servants excluded), 64.6 per cent of the unemployed received unemployment insurance, 3.5 per cent of the total population received social assistance and 6 per cent of all households

⁹³Alber (1986:5).

⁹⁴Kaim-Caudle (1973:315-16).

received housing allowances. Educational allowances were paid to 32.6 per cent of all students and 40.7 per cent of all secondary level pupils.⁹⁵ In line with the objective of the German system to provide an adequate income in order to maintain living standards, benefits are higher relative to average incomes than in Britain. Pensions equalled 40-47 per cent of average *net* earnings in 1960, unemployment payments 50 per cent, social assistance 29 per cent, child allowances 11 per cent, housing allowances 6 per cent, student benefits 27 per cent and pupil benefits 15 per cent.⁹⁶ Transfer income as a percentage of disposable household income increased from less than 15 per cent in 1950 to about 27 per cent in 1970.⁹⁷

⁹⁵Alber (1986:46, table 6).

⁹⁶Alber (1986:49, table 7).

⁹⁷Alber (1986:65).

CHAPTER 3 EXPLAINING THE INCREASED ROLE OF THE STATE IN THE PROVISION OF SOCIAL SECURITY

3.1 Introduction

The previous chapter indicated the extent of the change in the role of the state with regard to social policy over the development process. In this chapter an explanation of this tendency is offered. It was argued earlier that the change could be seen as being the result of a reassignment of certain functions from other units of collective choice and collective provision (institutions such as the family and religious bodies) to the state. To explain this change it is not enough to provide only an explanation for the growth of the relative role of the state. Reasons must also be advanced why provision of these services by other institutions became relatively less important. In other words, some explanation must be provided for the changing "division of labor among families, markets, and government".¹

Many explanations have been forwarded to explain the growth of the relative role of the state in economies², as well as to explain the growth of the so-called welfare state³. The studies of the growth of the welfare state are mostly sociological in character and share the central concern of this study, namely explaining the increase in the role of the state in social provision. The economic literature on the growth of governments focuses on state expenditure more generally, and expenditure on social security is not the central object of explanation. The different forces identified in these two sets of literature are divided into supply and demand factors and critically discussed under those headings in Sections 3.3 and 3.4. Few of the studies in these two groups focus on the growth of the state or the welfare state as a substitute for, or in competition with, other institutions.

¹Ben-Porath (1982:60).

²For overviews see Andic (1981:143-149), Mueller (1989:Chapter 17) and Gabriel and Loderer (1988:269-270).

³See Wilensky, et al. (1987:384-401).

An important exception, and the basis of the offered explanation, is Breton's analysis of the expansion of, what he called, "competitive governments".⁴ Breton's analysis is useful because it opens the door to building a theory of government supply of goods and services based on the assumption of consumer sovereignty and rationality. Earlier economic studies on the supply of government services focused more on the conflicting interests of the consumer of state services and the agents responsible for state provision, such as bureaucrats and pressure groups, and the ability of these suppliers to manipulate and misrepresent demand for these goods and services. Other studies are dominated by an analysis of demand factors in explaining government growth. This is also true of most of the sociological approaches which focus either on rising income levels or changing tastes and needs for services providing social security.

In addition to the recent study by Breton, two other sets of studies underlie this approach to explaining government growth. One of these is represented in the recent compilation by Ahmad, *et al.* on social security in developing countries.⁵ A number of studies in that volume give attention to the similarity of the objectives of traditional and more modern social security systems and the implications of the interaction between these types of systems for the provision of social security in developing countries. Lastly, it will be seen, the explanation relies on North's analysis of the impact of the process of industrialization on relative prices and the viability of different institutions.⁶

The explanation offered is an economic explanation in the sense that it traces the growth of government provision to changing supply and demand conditions in the "market"⁷ for services providing social security. Such an economic explanation is not only useful as a description (for "understanding"), but can also serve as an aid in evaluating change, that is saying whether it is, economically speaking, a "good thing" or a "bad thing". If it is said that current provision of social security can be related to the state of supply and demand, it

⁴Breton (1989).

⁵Ahmad, *et al.* (1991).

⁶See North (1981) and (1985).

⁷Becker (1981:ix) distinguishes between "implicit" and "explicit" markets. Here we are dealing with "implicit" markets.

implies that the outcome represents the preferences of and constraints on consumers and the current state of technology (and thus the production function) and costs. An outcome consistent with these "objective" or "market" conditions then reflects the best that we can do under the circumstances. In other words, if the present role of government is compatible or in line with changing demand and supply forces, the economist, as "guardian of rationality"⁸, can give such an arrangement for the provision of social security a stamp of approval. A crucial assumption, on which more will be said in the following section, is of course that demand does reflect individual choice and that supply does reflect the state of knowledge and prices, or in other words that the "market" works well.

A short synopsis of the argument will be given to complete this introduction. The second section notes and justifies some of the assumptions behind the economic analysis of markets. Some reasons for following this distinctive economic route to explanation and evaluation are also given. The third section sketches the major economic and structural changes thought to be responsible for the transformation of provision. Sections four and five analyze in more detail how these changes could be expected to affect respectively the demand for and supply of services providing social security and how these changes can, consequently, be used to explain changing methods of provision. The last section spells out some implications of this analysis. The issues of affordability, timing, necessity and likelihood of growing government provision of social security in developing countries are discussed.

The basis of the argument is that as countries pass through the semi-industrialized phase of development they experience, among other things, increased specialization, rapid industrialization and urbanisation. These, and other structural changes associated with economic development, engender changed social and economic conditions with numerous effects on the objective of social security. There will, firstly, be a need for new or different protective measures against different ("new") contingencies (for example industrial accidents and unemployment) as well as a need for "new" measures to promote social security (different education and health services). There might thus be a changed demand (or at least need) for services providing social security. The supply side will also be affected because the structural changes influence the cost of production and efficiency of organizations which can

⁸The phrase is that of Kenneth Arrow, quoted by Meier(1984:4).

provide social security. More specifically, changing opportunity costs and relative prices will affect the comparative advantage of institutions involved in providing social security.

The argument offered emphasises supply factors as an explanation of the growth of government provision of social security. Although development does affect the nature and extent of demand, changing demand does not specifically explain government provision to satisfy that need. As regards supply it is argued that governments as sources of supply over time replace other institutions because they can produce these services at the lowest cost. This cost advantage results mostly from considering a wider range of costs than is ordinarily done.

The continued diversity of welfare provision in comparable countries is attributed to the fact that the exact effect of the changing economic structure (objective conditions) is determined by the specific social, political and institutional structure by which it is confronted and thus "filtered". Ideology and norms are part of this "superstructure" which ensures variety.

If increased state provision is then in line with individual preferences expressed through the collective choice process, as well as supply conditions, it can be seen as a rational and welfare-enhancing response to certain changing economic conditions. It follows that expansion of state provision of social security might not affect growth negatively and that the redistribution resulting from state provision cannot be seen as detracting from efficiency.

3.2 Motivating the use of the economic analysis of markets

The economic analysis of markets⁹ entails a visualization and explanation of outcomes as the results of the rational choice of economic actors between a set of alternatives. This analysis was originally developed in the context of market exchange but has been extended to the analysis of political outcomes¹⁰, and also to the analysis of allocation by other

⁹Many would just refer to "the economic approach" or "economic analysis". Economics does, however, in its core areas contain more than the analysis of the interaction of human beings as if through markets.

¹⁰See Mueller (1989:1-6) for an overview of the origin of the field of "public choice".

institutions, such as the family¹¹. As Becker has explained, the core of such an approach to phenomena is "the assumptions of maximizing behavior, stable preferences, and equilibrium in explicit or implicit markets".¹²

The outcome, that is the quantity of goods and services exchanged, reflects choices of individuals (demand) and the current state of the production function and costs of production (supply). The choices of individuals, it is assumed, reflect their preferences and constraints, with constraints resulting from limited income of people and the positive prices of goods. Underlying this analysis, and especially its usage as a predictive tool, is the behavioural assumption that individuals act rationally, that is, they will consistently choose in line with their objective. This objective is normally assumed to be self-interest, which translates into the behavioural assumptions of utility maximization in the case of consumers, and profit maximization in the case of producers.

In terms of explanation, changing prices and quantities can then be explained as the result of either changed preferences, changed constraints (prices and incomes), changed technology (affecting the production function) or changed opportunity costs of production. In terms of evaluation the market outcome is viewed as representing an efficient outcome as it provides the best outcome given the constraints.

Explaining and evaluating political outcomes, or outcomes of collective choice, in terms of the economic analysis of markets necessitates certain assumptions. The first necessary assumption is the one which Breton stressed, namely that "goods are goods and services are services".¹³ This implies that goods and services produced by the state can also be provided by other institutions and that different suppliers, including the state, compete for the custom of consumers. People thus choose between different suppliers and are not

¹¹Gary Becker has been the most prominent name in this field, which is sometimes referred to as the "new household economics". See Ben-Porath (1982) for a selective description and evaluation of the "research programme".

¹²Becker (1981:ix). Another formulation on the same page which gives a slightly different perspective is when he argues that "(t)he economic approach ... assumes that individuals maximize their utility from basic preferences that do not change rapidly over time, and that the behavior of different individuals is coordinated by explicit and implicit markets".

¹³Breton (1989:720-721). See the discussion in Chapter 2.2 of this study.

coerced to use government services, or the coercion involved is not significantly more serious than in the case of other avenues of provision.¹⁴ A second necessary assumption is that political mechanisms (voting, representation, etcetera) accurately communicate or reflect the demand for goods and services in the absence of choice through the market mechanism.¹⁵ Instead of a sacrifice of purchasing power reflecting demand, as in the analysis of markets, voting and entry and exit of citizens reveal preferences and demand. Tax liability and other costs of purchasing from the state entail "pseudo-prices".¹⁶

Accepting these two assumptions leads to a clear view of government provision as an alternative to provision by business firms (the market) and other social groupings. Instead of viewing the state as analogous to a person maximizing an objective function, it is seen as "a sort of analogue to the market".¹⁷ In what has been described as a "contractarian approach to public choice"¹⁸, the state is seen "as an institution through which individuals interact for their mutual benefit" or "as a quid pro quo process of exchange among citizens".¹⁹ The relationship between citizens, family members, and members of other "clubs", "takes the form of 'as if' market transactions at implicit prices".²⁰

An important corollary of the approach is that collective outcomes can be related to individual actions. In general terms a relationship is postulated "between the objectives of social policy and the preferences and aspirations of members of the society".²¹ More specifically, "public policies are seen, ideally, as a choice on the part of the citizenry".²² Such a point of departure has attractive implications which are summarized well by Ringen:

¹⁴Breton (1989:722-723).

¹⁵See Breton (1989:721-725).

¹⁶Breton (1989:726).

¹⁷Mueller (1989:3).

¹⁸Mueller (1989:6).

¹⁹Mueller (1989:5-6).

²⁰Sen (1984:372).

²¹Sen (1970:1).

²²Ringen (1987:262).

"[The approach] is faithful to the ideal of democratic politics, it has its basis in the principle of methodological individualism and thus avoids the fallacies of functional and related approaches, it squares with the notion that society is created by people and that people are active subjects and not mere passive objects and it relieves us from having to start from any stated or tacit assumption of conspiracy or power abuse behind political failure."²³

This does not imply that the system of collective choice is perfect and that nothing will ever go wrong. It does, however, provide us with some criteria for the working of political institutions and a guide to finding breakdowns.²⁴

The (implicit) approach taken here is consequently to look at how changing circumstances could have been expected to affect the demand and supply for services providing social security, with special reference to the various sources of supply. It is assumed that the preferences of consumers count and that all institutions compete as providers. The "prediction" is then compared to the actual outcome which was, it has been argued in Chapter 2, the growing state provision of social security, in part to replace the contributions of other institutions. The fact that the actual outcome is consistent with the expected (implicit) market outcome is seen as indicating that this outcome is rational, in the sense that it makes efficient use of scarce resources.

Efficiency can be understood in the normal sense of Pareto-efficiency, which pertains to a situation where it is impossible (in consumption) to improve the well-being of one person without harming the well-being of someone else. Used as a criterion of social welfare (which is done implicitly), efficiency in the Pareto-sense is of course problematical. This follows from the fact that the criterion cannot be used to rank all alternative states because it breaks down when evaluating a change which would provide gains for some and losses for others. It can thus not deal with situations where redistribution is implied because that would imply

²³Ringen (1987:263).

²⁴Ringen (1987:262-263). The case is similar to the analysis of markets in terms of the model of perfect competition. Although some of the assumptions are extreme simplifications, the approach is vindicated by the descriptive, explanatory and predictive gains as well as from being able to compare the real to some sort of "ideal".

interpersonal comparisons of utility. An allocation which is totally unacceptable redistributionally might thus still be classified as Pareto-optimal because moving to an alternative situation might affect the very rich slightly negatively.

The criterion thus implies that change should take place ("be approved") only when people are unanimous about the change, or when "conflict or the benefit of one party at the expense of another is absent".²⁵ Although it is thus uncontroversial as a criterion of improvement, it is also informationally silent in the most interesting cases where conflict exists. In concentrating on efficiency, other values and objectives which can also be seen as fundamental to well-being and the welfare state are excluded from consideration.²⁶ Pareto-efficiency can then be seen as a necessary condition for an optimum but not as sufficient.²⁷

The fact that efficiency is not a sufficient criterion for evaluating changes in well-being does not make it a useless criterion for this analysis. Various reasons related to efficiency which can be found for state provision of social security will be explored. The motivation for this inquiry is that the negative effect of social provision on efficiency and total output is one of the critical criticisms of such provision, especially in the context of developing countries. Ignoring other goals and values does not mean that they are not important; only that state welfare provision is analyzed in terms of that criterion which is assumed to be its weakest aspect.

3.3 Changes associated with economic development

The growth of government provision of social security is here associated with the process of economic development and especially that phase which is sometimes described as the Industrial Revolution. With reference to the contemporary experience, it is seen as being exhibited by semi-industrialized or middle-income countries. This refers then to a process that became visible in Great Britain and Europe during the late eighteenth century and its

²⁵Boulding (1952:18).

²⁶See Helm (1989:36-37 and 40-42).

²⁷Sen (1973:204) and Boulding (1952:12).

extension to almost all countries in the nineteenth and especially the twentieth century. It has also been described as the "epoch of modern economic growth"²⁸ or with reference to the nineteenth century, the "second economic revolution"²⁹.

These terms are all admittedly imprecise and much has been written on the uses and abuses of the concept.³⁰ One description of the process is as a "phase during which the economy 'grew up' as a result of advances in manufacturing techniques powerful enough to raise the productivity of whole industries. These industries made up a modern sector of the economy which achieved increasing returns and expanded faster than the traditional sector, ultimately at its expense, although traditional manufacturing was itself not exempt from change and went on expanding for some time."³¹ In spite of the broadness of the concept we can identify a number of related processes and effects with relevance for the provision of social services by the state. Due to the interrelatedness of the processes any categorization must be unsatisfactory in one or other respect.

Building on the analysis by North in his recent analyses of the growth of government in the United States, six interrelated processes can be identified.³² These processes are

- industrialization;
- increased specialization and division of labour;
- population growth, increased mobility of the population and accelerated urbanisation;
- reduced transport costs and the increased availability of information; and
- the process of secularization and an accelerated rate of societal change.

²⁸Kuznets (1973:247-248).

²⁹North (1981: Chapter 13 and 1985:339).

³⁰For a discussion of some of the problems related to the concept see Jones (1988: Chapter One).

³¹Jones (1988:14) presenting Mokyr's view.

³²North (1985) and the more detailed discussion in North (1981:Chapter 13).

North relates these processes to the "revolutionary technological change of the nineteenth century".³³ This technological change encompassed the development of "automated machinery ... in production, the creation of new sources of energy" and improved abilities "to transform matter into useable materials and energy".³⁴ Because of the capital intensity and indivisible nature of these new technologies, they gave rise to an economy characterized by "large scale continuous production and distribution".³⁵

This process of industrialization was associated with a relative decline in the importance of agricultural production, and later of the manufacturing sector relative to the service sector.³⁶ Along with these sectoral shifts came increased productivity reflected in rising levels of per capita income³⁷, which can be traced partly to increasing specialization and division of labour.

The processes associated with industrialization (as listed above) can be seen as having numerous effects impacting on the provision of social security. These influences can be expected to affect the demand for social security as a result of rising incomes, an increased dependence on markets (especially wage labour) and increasing transaction costs of exchanges (as a result of increased specialization and division of labour). Skill requirements also change significantly. The dislocation of social ties and traditional rights will also lead to the disintegration of traditional safety nets. In addition the growth of diverse interest groups as a result of the specialized occupational and other groupings might bring effective pressure to bear on authorities to cater for some of their needs. The clustering of people in urban settlements and the increased interaction and interdependence might create new interdependencies and risks such as the easier spread of infectious diseases and the need for proper systems of sanitation.

³³Especially North (1985:388 and 392).

³⁴North (1981:173-174).

³⁵North (1985:388).

³⁶Kuznets (1973:248-249).

³⁷Kuznets (1973:248).

With regard to supply, there were falling costs of production in most spheres as a result of specialization and division of labour made possible by large-scale production. This was accompanied by rising transaction costs as a result of the increasing complexity of economic exchange and its impersonal nature.³⁸ This affected the opportunity cost of production of goods and services by different institutions significantly. Also on the supply side the increased commercialization as well as the formalization (and recording) of business transactions and increased use of systems of accounting made the monitoring and taxing of firms easier.³⁹ The spread of markets and modern methods of production also provided certain goods at lower prices than households could produce them. In this way households and other intermediate institutions as suppliers were pushed out of the market for insurance, education and health.

In the next two sections the effect of these changes on the provision of social security by the state is analyzed.

3.4 Factors affecting the demand for services providing social security

3.4.1 Rising income and the demand for government provision of social security

The level of economic development of a country, measured in terms of per capita income or some other measure of affluence or wealth, is often advanced as the "root cause" of state provision of social security.⁴⁰ This argument finds its most extreme expression in the hypothesis of convergence, which implies that the social provision in countries with widely differing political and social structures will become more alike as they approach the same levels of economic development.⁴¹ Normally the explanations offered are, however, more subtle than this, as the correlates of economic growth, such as democratisation and the development of a more efficient bureaucracy, are also mentioned. There does, on the other hand, seem to be a pervading consensus that rising levels of production and income

³⁸North (1985:389).

³⁹See Breton (1989:734 and 738).

⁴⁰Alber, *et. al.* (1987:459), Wilensky, *et. al.* (1987:384-387) and Aharoni (1977:53-59).

⁴¹See Wilensky, *et. al.* (1987:387-389).

produce an "economic surplus"⁴², which is partly allocated to state production and provision of services providing social security. This "surplus" is then used to explain the growth of state welfare provision. This view of the growth of state welfare provision is important in that it underlies the widely held view that developing countries cannot afford the rapid expansion of state welfare provision. In essence then the explanation can be rephrased in the following way: Industrialization and the resulting productivity gains lead to rising levels of per capita income, pushing outwards the budget constraint of individuals and leading them to buy more social security services, which are presumed to be a luxury good.⁴³

The positive relationship between increasing per capita income and the relative size of government expenditures (that is, not only on social services) has been formalized as Wagner's Law. This "law" has been interpreted by Van der Berg "as implying an income (per capita) elasticity for public spending per capita of more than one".⁴⁴ Wagner explained this tendency as resulting from the fact that, firstly, a substantial number of public goods are luxuries and, secondly, that economic development will be associated with increased market failure necessitating state intervention.⁴⁵

What is of concern here is the first argument, namely that government services are luxury goods and therefore only become affordable at higher levels of development. The postulated positive relationship between per capita income and relative government share seems to be broadly validated by time-series and cross-section evidence of experience over the last 100 years.⁴⁶ Formal econometric testing with income growth as one of the explanatory values has, however, failed to measure an income elasticity of demand for government expenditure of more than one. This implies the absence of an income effect

⁴²Flora (1986:XVI).

⁴³See, for example Aharoni (1977:61).

⁴⁴Van der Berg (1989d:3). For a more detailed treatment see Bird (1971).

⁴⁵Bird (1971:4).

⁴⁶See, for example the time-series and cross-section evidence in World Bank (1983:44, Table 2.1 and 46, Table 2.2) and Chapter 3 above.

on government expenditure as a percentage of total production.⁴⁷ Although there are severe problems with the econometric measurement, Mueller concludes that "increasing personal income" cannot "account for much of the relative increase in government size".⁴⁸

Viewing income growth as an important cause of government social expenditure growth can also be questioned on theoretical grounds. Firstly, the statement that services providing social security are luxury goods is difficult to accept. All reasonably stable societies have systems of provision aimed at coping with destitution and to deal with vulnerability as a result of relevant contingencies. Elaborate systems of income insurance and other safety nets have been observed in what can be called "traditional societies" and it has been remarked that "barring exceptionally unfavourable circumstances, traditional methods for controlling the risk of falling into distress have usually enabled the people to counter natural and other hazards in a rather effective way".⁴⁹ It could even be argued that because of the generally lower standard of living in traditional societies the increased vulnerability and "fear of dearth"⁵⁰ might lead to the establishment and upkeep of safety nets being a priority, and definitely not a luxury. People in these societies might then be prepared to sacrifice more (a greater share of total income) in order to maintain these support structures. This is one way of explaining the survival of many of these protective institutions of traditional societies in spite of their clearly high costs.⁵¹

It can furthermore be argued that, even if some types of social provision can be seen as luxuries, income growth will affect the demand for all normal goods and luxury goods. The demand for the products of both the private and the public sector will thus be stimulated.

⁴⁷Borcherding (1985:365-366) and Mueller (1989:324-325). For a South African estimate and some of the difficulties involved in measuring this elasticity see Abedian and Standish (1984:399-403).

⁴⁸Mueller (1989:324).

⁴⁹Platteau (1991:156). See the rest of the article for examples of traditional systems of social security.

⁵⁰Scott (1975:vii).

⁵¹See Platteau (1991:159-161) for a discussion of some of these costs. He refers specifically to the costs associated with patronage relationships and the effect of the insurance systems on capital accumulation and initiative.

For income change to be able to explain increased *state* provision a further assumption is needed. The needed assumption is that certain goods can only (or mainly) be provided by governments, and that the demand for these goods provided by governments grew faster than that for other "luxury goods". This would go against a central assumption, defended above, that "goods are goods". Using income growth as explanatory variable thus assumes not only that supply will respond to demand but also that the supply response will have to come from government. As Breton argues, Wagner's Law "... is a victim *avant la lettre* of the welfare economics mentality which ascribe functions or responsibilities to the state on *a priori* grounds and as such assumes, at least in part, what has to be demonstrated".⁵² Without a theory of supply of services providing social security to explain the specific way in which the increased demand was met, income growth as an explanatory variable does not take us much further.

3.4.2 The industrial revolution and changing needs and preferences

Rising demand for government services and for state provision engendered by changing needs and preferences associated with economic growth might have had an effect on state provision. What is the concern here are the changes resulting from increased industrialization. Two trends closely associated with industrialization are increased specialization and division of labour and urbanization. While increased industrial production might have increased the vulnerability to industrial accidents and occupational injuries⁵³, specialization and division of labour was associated with an increased predominance of the wage labour relationship as the method of employment. This implies the increased dependence of a worker on the ability to work in a demanding environment and on the ability to sell his labour power. In addition to this dependence on the labour market⁵⁴, the general spread of markets and the geographical reach of markets made people more vulnerable to market conditions and business cycles⁵⁵. This was partly as a result of the decreasing costs of

⁵²Breton (1989:724).

⁵³Van der Berg (1988:5).

⁵⁴See Drèze and Sen (1989:5-6) for a discussion.

⁵⁵Van der Berg (1988:5).

transport and information.⁵⁶ It could be construed that these changes and increased dependencies led to an increasing need for insurance against industrial accidents, disability and unemployment.

Alternatives to state provision of such insurance (substitutes) might also have been on the decrease. This would have been the effect of the dissolution and replacement, by markets and industrial production, of old paternalist, feudal and guild relationships and the increased mobility of the population.⁵⁷

All kinds of traditional methods of social provision would come under pressure from the spread of markets and industrialization. Breton argued that increased mobility will dislocate social relationships.⁵⁸ Platteau described the outline and complexity of this change as follows:

"The problem is essentially that by opening up new and varied avenues for social and economic mobility, the growth of the market tends to encourage the overt expression of (perhaps latent) individualistic propensities among the people, to dissolve old cooperative ties and to disentangle the individual's interest from those of the social group. Deeper and deeper penetration of market values has the effect of loosening the web of traditional social relationships: people become more and more free of group pressure to conform and less and less concerned about the well-being of the extended family or social group."⁵⁹

As a result of this dearth of substitutes for state provision of security it would also be reasonable to expect increased demand for state provision.

⁵⁶North (1985:389).

⁵⁷Van der Berg (1988:5).

⁵⁸Breton (1989:734).

⁵⁹Platteau (1991:158-159).

The increased clustering of people around industries, that is urbanisation, could further have affected the demand for state provision of a whole range of services related to social security. As Mueller remarks, "[t]he very definition of public goods and externalities connote geographic proximity".⁶⁰ Examples are water provision, sanitation and other aspects of public health, which are all goods and services with significant external consumption effects (externalities) or goods which are normally viewed as public goods.

Once again there has been little empirical support for these variables in the empirical testing of the likely factors leading to government expenditure growth while Mueller further concludes that "[n]o other taste variable has garnered both compelling a priori and empirical support".⁶¹

In addition to the inconclusiveness of empirical testing a number of factors must be kept in mind. While the sources of vulnerability and destitution might change over time, it is once again difficult to compare the exact extent of difference in risk of destitution and to decide whether industrialization has exposed people to more risks. Variability of income under alternative systems and the difference in degree of risk of destitution need not be much higher in an industrial society than in traditional societies. In fact it was argued in the previous section that the acceptance of the high cost of social security provision in traditional societies might be an indication of the vulnerability to risk.

With regard to dealing with the externalities associated with urbanisation, it must again be pointed out that the removal of externalities can be viewed as a service, and that more than increased demand is necessary to explain government provision. A wide range of mechanisms exist to deal with externalities, for example clubs, negotiation between affected individuals and a clear specification of property rights.⁶² These avenues do not imply a role for the state in the actual production of goods and services but rather in providing a framework for decentralized interaction. This role does not have to entail a dramatic effect on the relative size of government.

⁶⁰Mueller (1989:324).

⁶¹Mueller (1989:324).

⁶²See Chapter 1 above.

The observation that the number of substitutes for government action might decline as a result of economic development is probably true. This will be argued in the next section. Increased market provision (by firms) of goods and services can, however, also provide some of these needs and will then work against the growth of the relative role of the state. Whatever the exact balance is, it is clear that at this point a theory of supply and cost of production of the different institutions becomes necessary in order to explain the declining ability of some institutions to provide security and the increasing comparative advantage of other institutions.

3.4.3 Democratisation, pressure groups and rent-seeking

Another possible, and very popular, demand-side hypothesis is that the growth of special interest groups looking for redistributive favours and the alleviation of externalities and provision of public goods can help to explain the more than proportional expansion of government. The possibility of increased effective interest group activity as a result of economic development has been explained in numerous ways. Van der Berg has ascribed it to the growing political influence ("shifts in political power"), possibly as a result of enfranchisement or urbanization of earlier marginal groups⁶³. Olson has ascribed the growth of interest group activities to the "stable economic and political environment in western developed countries since World War II".⁶⁴

North maintains that one of the effects of economic change since the late 19th century has, as a result of increased specialization and division of labour, been a multiplication of the "number of potential special interest groups by increasing the specificity of the issues around which they could organize. At the same time, the decreasing cost of communication made the organization and maintenance of special interest groups much less costly than before."⁶⁵

⁶³Van der Berg (1989d:10).

⁶⁴ Discussed in Mueller (1989:337).

⁶⁵North (1985:391).

In line with previous argumentation, increased interest group action could, however, also have been addressed to other institutions or the supply of public goods and the elimination of externalities by these groups themselves⁶⁶. Again additional reasons are needed why specifically government expenditure on social security would rise. Mueller partially explains this by arguing that the ability to use the state to resolve a large number of problems related to externalities and public goods leads to a saving of transaction costs. In other words, the state specializes in dealing with these types of problems. As a result the normal benefits of specialization result.⁶⁷ This point, however, leads to the domain of production costs and the determinants of supply, which will be discussed later.

It is thus possible to find intuitively acceptable reasons for the growth in demand for social services. These demand factors do not explain, however, the fact that the increased demand was met by state provision. Increased demand, *ceteris paribus*, is thus an inadequate explanation of increased state provision of social services.⁶⁸ Using demand factors as an explanation relies on the notion that certain activities can only be provided by government. The argument thus goes against the valid assumption that "goods are goods" and its implications.

In what follows, the emphasis is on the factors determining the source of supply of services providing social security. If it is found that there was indeed a relative growth in the demand for social services, an explanation of the changing sources of supply will still be needed.

⁶⁶The same goes for income redistribution.

⁶⁷Mueller (1989:34-35 and 335-336).

⁶⁸An application to the field of private goods might perhaps help to decide whether the argument is spurious or not. An increased level of sales of Toyota motor cars can possibly be explained with reference to an increased demand for motor cars as a result of increased consumer income, or some other demand factor. The correctness of such an inference would have to be ascertained by looking at the sales of other makes of motor cars. If sales of other makes did not increase or increased by a smaller percentage, then the first explanation, although superficially in line with the "facts", would exclude very important information about the factors responsible for increased Toyota sales. The reasonableness of this argument would seem to indicate that once the principle that goods are goods is conceded (that is that governments compete with other suppliers), the necessity of looking at the supply factors becomes clear.

Any motivation relying on changes in the demand sphere still has to explain why governments can provide a specific good at the lowest price. In the words of Breton:

"... even if a genuine demand for public goods and the abatement of negative externalities exists, nothing can be presumed about the behaviour of public provision and public expenditures without analysing supply. Public goods and services, like market goods and services, are 'produced' and supplied and it is just as unacceptable to disregard the forces that govern that production and supply as it would be to jettison those forces when one is analysing the growth of economies."⁶⁹

3.5 Factors Determining the Source of Supply

The purpose of this section is to argue that increased state provision of social security can be related to changing supply conditions in a situation of stable demand for such services. The growth of social security provision by the state and the dominant role of the state can thus be referred to as a rational adjustment to changing economic conditions.

3.5.1 The bureaucracy/fiscal illusion approach

Before continuing it is necessary to deal with an argument which leads to an interpretation of increased government intervention as having little relationship to the preferences of consumers. An influential explanation of the growth of government expenditure and state welfare is that it represents the preferences and choices of bureaucrats maximizing their own utility functions, rather than those of the citizen-consumers which they are supposed to serve. This situation can arise because these actors (agents) are inadequately constrained as a result of the absence of market discipline, and because of their ability to hide the costs of their actions from the client-citizen. The notions of bureaucratic power (an imperfectly constrained bureaucracy) and fiscal illusion (deception about the true cost of supply) are the

⁶⁹Breton (1989:719).

most prominent supply-side explanations of the growth of government in the public choice tradition.⁷⁰

The argument is that bureaucrats strive for an expansion of the size of their bureau in order to increase remuneration, power and status. In the words of Weaver, "the government is comprised of self-interested politicians and bureaucrats who participate actively in the collective choice process, possess significant discretionary power, and affect political outcomes to advance their own ends".⁷¹ Whereas the usefulness of such expansion will be judged by the markets and profit history in the case of a private firm, there are apparently few checks on the social value of the output of the bureaucracy. The persistence of such a situation is made possible, it is argued, by the fact that the complexity of the tax system makes it difficult for citizens to perceive the cost of the expansion of the bureaucracy and therefore to act against it through the voting system. Increasing public output can then be seen as a result of the "slackening of the reins of government in citizens' hands".⁷²

It is difficult to reconcile this approach with the behavioural assumptions of the public choice approach and its roots in neo-classical microeconomics. The assumed absence of constraints on the self-interested behaviour of civil servants disregards a basic premise of the public choice approach which postulates "a behavioral 'connection' or bridge between the cost and benefits of public policy".⁷³ In essence this approach argues that bureaucrats can ride roughshod over the choices of citizens because of their monopoly power, control of information and their ability to hide the true cost of services (fiscal illusion). The bureaucracy/fiscal illusion approach leads to a "state-rules-citizen view"⁷⁴ or a "'non-democratic' conception of government"⁷⁵. Such an approach must, when taken to its logical consequences, lead to a disregard of the link between price and consumer choice

⁷⁰See Mueller (1989:337-343) and Borcharding (1985:372-374).

⁷¹Weaver (1982:7).

⁷²Mueller (1989:347).

⁷³Breton (1989:739).

⁷⁴Mueller (1989:344).

⁷⁵Weaver (1982:7).

which is a cornerstone of the economic approach to politics. It further implies a complete neglect of the preferences of clients in the analysis of outcomes. Such a disregard is of course contrary to the starting-point and spirit of neo-classical economic analysis.

As an alternative, it can be argued that the existence of alternative supply sources forces bureaucrats to compete. If their utility functions become the determinant in production they will simply "price themselves out of the market". As something similar to a monopolist in the market, government may have some market or coercive power which allows it to take monopoly rents, but the existence of monopolies does not imply that there are no constraints on monopolists or that consumer demand becomes irrelevant. In this regard two arguments may be advanced.⁷⁶ The first is that of Breton which holds that governments are not the only institutions which coerce.⁷⁷ Coercion takes place whenever people get less, or something different, than what they actually thought they purchased. Such disappointment with private goods and services is a fairly widespread phenomenon.⁷⁸ Secondly, we can expand North's argument that "the state is constrained by the opportunity cost of its constituents, since there always exist potential rivals [substitute producers] to provide the same set of services".⁷⁹ Whereas he refers to rival "states" and other "potential rulers" in the country, the existence and practise of alternative supply sources of the services which governments provide illustrate the existence of competition.⁸⁰

In the light of the argumentation above, it is clear that the focus on bureaucracy cannot on its own explain the changing supply. This approach is, however, not completely irrelevant. It is clear that the nature of political institutions may lead to a less than perfect control over agents (bureaucrats) by principals (voters and legislators).⁸¹ This incomplete control can

⁷⁶See also the surveys of evidence by Borcharding (1985:372- 374) and Mueller (1989:337-343) for a discussion of the inconclusive empirical evidence.

⁷⁷Breton (1989:723).

⁷⁸See also Hirschman (1982: Chapter 1) for a discussion of the importance of "disappointment" in affecting consumer behaviour.

⁷⁹North (1984:36).

⁸⁰See also Breton (1989:729-730) for a similar argument.

⁸¹North (1985:393).

be built into a model of supply determination in a number of ways. North has done this by distinguishing between fundamental factors underlying the growth of government and secondary factors which affect the "timing and pace of growth".⁸² The fundamental factors, or the factors determining the basic direction of change, he identified as changing relative prices and the effect thereof on the viability of institutions. The secondary factor is the specific political framework within which decisions are reached, such as the specific type of democracy or the control system over bureaucrats. It can thus be argued that in an explanation of the growth of government in the social sphere there are certain fundamental factors which explain the general increasing role of the state. Certain other factors, however, explain the diversity across countries in terms of the timing of introduction of services, the selectivity of benefits, the level of benefits and the specific balance between state and private provision. These specific characteristics can be traced to the specific political institutions in a country and, among other things, how these affect the discretion of supplier bureaucrats.

3.5.2 Changing comparative advantage and greater supply of government services providing social security

In response to North's argument that the increased specialization and division of labour associated with the "second economic revolution" led to an increased *demand* for services earlier provided by household and other institutions, Breton argues that the mentioned changes should rather be interpreted as having affected the *cost of production* of different institutions differently and resulting in a comparative advantage for government provision.⁸³ At other points North can be interpreted as agreeing with Breton. In one place he argues that "the growth of government is a function of [among other things] ... the inability of voluntary organizations to completely meet the new needs of the family and of economic organizations".⁸⁴ Further on it is held that "a fundamental change in relative prices resulted in profound economic and political reorganization by changing the economic viability of

⁸²North (1985:397 and 392).

⁸³Breton (1989:743) and North (1985:333).

⁸⁴North (1985:392).

existing institutions".⁸⁵ It is the contention that these same forces and related processes can also explain the observed increases in state provision of services providing social security, as defined here.

Both Breton and North provide ample justification for their views. Motivation for the support of this argument is provided by summarizing the main components of shifting comparative advantage outlined by Breton and North and by looking at the changing position of the family in "welfare production". Some remarks will also be made about poor relief and income support. Because of the paucity of statistics on the value of services and transfers of less formal institutions it is difficult to advance definite empirical information to support the argument. Such evidence as is available, however, seems to support the contention. An interesting future challenge is the construction of a database to elucidate these matters further.⁸⁶

3.5.3 The main components of the shifting comparative advantage of institutions

North argues that the changing viability of institutions can be related to changing relative prices and costs. These changes are traceable to aspects of the "second economic revolution". He identifies a number of general trends.⁸⁷ Firstly, manufacturing in the large-scale processes associated with industrialization would generally lead to lowering unit costs of production. As this large-scale production entails specialization, both within and between firms, transaction costs⁸⁸ would, however, increase. This increase is the result of the need to coordinate and integrate "increasingly complex production and distribution processes". In this regard he stresses the increased cost of "monitoring and metering performance" as a result of the replacement of "personal exchange" by "impersonal exchange".⁸⁹

⁸⁵North (1985:397).

⁸⁶See Section 3.3 above.

⁸⁷North (1985:391-392).

⁸⁸He defines transaction costs as "the costs associated with capturing the gains from trade, including the costs of specifying and enforcing contracts". (1985:389).

⁸⁹North (1985:389).

Other costs such as the cost of transportation and information also decline and, with the lowering production costs, lead to an expansion of markets and the ability to buy things much cheaper on markets than from institutions that previously provided them. This factor can also lead to increased vulnerability to changing circumstances in markets. The increasing availability of employment for women in the service sector, as well as the low cost of market production, increased the opportunity cost of home production. The lowering cost of maintaining special interest groups (cost of communication and information) also lowered the price of obtaining services in this way.

A last factor which North mentions is "the enhanced ability of governments to extract resources from the populace".⁹⁰ This lower cost of taxation came about as a result of the ability to force many of the administration costs onto firms and the alleged greater efficiency of indirect taxation, compared to income and wealth taxes.

These changes then worked against the viability of certain institutions, especially those providing a wide range of goods and services. The family is one example of such an institution. Supply changed from such institutions showing a lack of specialization towards increased provision by the state and firms. North uses certain types of market failures, such as adverse selection and moral hazard, to explain why the state, and not market provision, stepped into the space left by the demise of other institutions.⁹¹

The most important component of North's analysis is his view of the role of transaction costs. Although it is costly to value or measure the goods and services involved in a transaction (e.g. the amount of labour provided, the quality of lectures or publications, the grade of corn), it is necessary to monitor these. The necessity for monitoring flows from the fact that self-interested individuals can gain from giving less than specified in the contract. There is an incentive to shirk on the terms of a contract in order to maximize utility and profit, or to minimize disutility and losses. Measurement and monitoring would also be useless in stopping opportunistic behaviour without the existence of enforcement mechanisms which can be applied given non-compliance with specifications.

⁹⁰North (1985:391).

⁹¹North (1985:392).

Because of the costliness of measuring and enforcing contracts, methods can be and have been followed to economize on these costs. One option is to specialize by identity, as Ben-Porath has called it. In other words, transactions can be limited to a small group of people among whom many repeat transactions take place.⁹² Examples of this would be transactions between family members and between members within a small community. Because of the fact that people have considerable knowledge about each other, and that they will also rely on each other in future (there will be "repeat binary interactions"⁹³), their "self-interested" behaviour will be constrained and result in "voluntary" compliance with the letter of the contract. In such cases, because of the significance of the prior "investment in resources specific to a relationship"⁹⁴, there is a reduction in transaction costs. Such transactions, which are closely related to what North has referred to as "personal exchange(s)", are characterized by low transaction costs as a result of the common set of values among transactors and the "self-enforcement" of contracts.⁹⁵ The drawback of such personal exchange is that it cannot co-exist with specialization over large geographical areas and over a large number of processes, because such specialization will so multiply the number of exchange process needed, that exchange will have to become impersonal. Low transaction cost as a result of personal exchange will then normally co-exist with high production cost and limited trade.

In addition to the self-interest involved in sticking to the unwritten terms of "personal exchanges" (eg. through ensuring future willingness of other people to trade with you), such exchanges can also involve a sacrifice of self-interest⁹⁶ as a result of a commitment to certain values, for example because of love for a child. Such devotion to values might also

⁹²Ben-Porath (1980:1).

⁹³Breton (1985:734).

⁹⁴Ben-Porath (1980:1).

⁹⁵North (1984:258-259).

⁹⁶Self-interested behaviour can here be interpreted as selfish behaviour or behaviour in line with a "simple, hedonistic, individual calculation of costs and benefits" (North, 1981:53), as is normally the case in economics (see Sen in Klamer, 1989:143, Akerlof, 1983:54 and Elster, 1983:10). As the sources referred to indicate, the assumption of self-interest is extremely complex as well as perhaps too vaguely specified (see especially Sen). This interesting issue cannot be discussed further here.

constrain behaviour in the case of impersonal exchange. A person might not steal because of his belief in the importance of upholding private property rights, etcetera. In this sense norms might, within small or large groups, work against the choice of narrow selfish interest and lead parties to an exchange to observe the terms of the contract. Norms then serve to reduce transaction costs and thereby contribute to making trade and increased specialization possible.⁹⁷

Breton discusses many of the same issues as North but focuses more clearly on changing costs as factors affecting the source of supply of the provision of goods and services. After mentioning the importance of changing productivity of "conventional inputs" (land, labour, entrepreneurship, capital, differential economies of scale in production, differential technological change) in the determination of the comparative advantage of different institutions, Breton goes on to discuss two sets of costs which he believes deserve more attention in the analysis of institutional change. These are the cost of controlling free-riding and "the differential deadweight cost or excess burden of the sums levied to pay the goods and services produced and supplied".⁹⁸

After defining the ability to control free-riding as the "capacity to ensure that those who benefit from goods and services carry a commensurate burden of the costs", he argues that free-riding takes place and needs to be countered in more situations than is often thought. In addition to the normal cases where free-riding is to be expected, such as the provision of public goods, he specifically refers to "private goods whenever their allocation is rationed by non-price-mechanisms".⁹⁹ He then looks at four specific methods of controlling free-riding namely Olsonian tie-ins¹⁰⁰, social pressures, moral codes and tax enforcement.¹⁰¹

⁹⁷North (1984:253) argues that the complexity of modern exchange and interaction would not be possible if selfishness was not constrained by values or a commitment to the rules of the game.

⁹⁸Breton (1989:733).

⁹⁹Breton (1989:

¹⁰⁰Many collective organisations provide services on which people can free-ride, such as lobbying for higher prices, creation of stable prices, establishment of a productive environment, higher wages, etcetera. Because self-interested people can free-ride on these benefits they will have no incentive to contribute to the financing of these services. For this reason institutions providing these services provide selective inducements in the form of

His submission is that the efficiency of methods of free-rider control normally associated with families and less formal institutions, i.e. tie-ins and social and moral forces, tends to decline as a result of economic development (cheaper availability of goods from business firms, mobility and secularisation), while tax enforcement, at least in a closed economy model or a less open economy, becomes more efficient as result of growing commercialisation. This then gives government provision a comparative advantage because of the low cost of production as a result of the low cost - relative to other organizations - of controlling free-riding.

On excess cost he argues that not only government taxes lead to dead-weight costs but that all methods of controlling free-riding lead to excess cost. Deadweight costs imply a gap between the cost of a service and its value, or, a "loss of consumer surplus over and above the revenue raised".¹⁰² Under certain conditions the link between costs and benefits might be strengthened so that prices are forced down and closer to the marginal valuation of consumers. In this way deadweight costs are reduced. Breton's conclusion on this point is that deadweight costs have been rising for some intermediate institutions, while falling in the case of goods provided by the public sector. While in government provision the "link between cost and benefits" has been strengthened, it has been weakened in the case of other institutions.¹⁰³

What Breton identifies as the cost of controlling free riders is of course similar to North's transaction costs, or at least one component of what North calls transaction cost. Breton's approach is useful in that it makes clear that the cost of transacting (e.g. coordinating the labour force, drawing up of contracts, legal action to ensure compliance) is part of the total cost of providing a good or service to clients. The success of an institution in controlling these costs will then have an important impact on its survival and ability to compete with

benefits from which people can be excluded ("private goods") in order to force people to join and help to contribute. These selective benefits are referred to as "Olsonian tie-ins" with reference to its original treatment, under the name of tie-ins, by Olson (1965).

¹⁰¹Breton (1989:732-733).

¹⁰²Atkinson and Stiglitz (1980:367).

¹⁰³Breton (1985:745).

other institutions. That is perhaps more clear than in North's formulation which distinguishes between "costs of production" and "transaction costs".

3.5.4 Aspects of the changing comparative advantage of family production of goods and service providing social security

As an example of how industrialization and economic development can change the viability of institutions in the provision of certain services, some aspects of family provision in terms of the concepts of changing costs and prices introduced in the previous section are discussed.

The family, defined as either a "co-resident group" or "kin who cooperate and interact closely"¹⁰⁴, is clearly an important institution with regard to both consumption and production in most societies. Although reliable estimates of the family contribution to total value in different societies are not available, it is normally judged to have a fairly significant role. Ben-Porath argues that "(t)he family plays a major role in the allocation and distribution of resources" and is "the most important institution for non-market transactions".¹⁰⁵ To provide evidence on the important role of the family, even in highly developed societies, Zapf's figures on production by families in Germany during the late 1970's can be used. He found that "private households are the biggest transportation, food and laundry businesses in the country. But also ... about one third is involved in agriculture (own field or kitchen garden) and in home building, and much more in repairs of several sorts. Many more old, sick and handicapped persons are taken care of in households than can ever be admitted to institutions. Two thirds of households are engaged in neighbourhood help and exchange."¹⁰⁶

¹⁰⁴Harris (1989:58).

¹⁰⁵Ben-Porath (1980:1 and 23).

¹⁰⁶Zapf (1984:271-272).

In spite of the extensive role of the family in all societies it is clear that the nature of the family changes as economic development takes place. One aspect of this transformation is the shift from the relative importance of extended kinship groups to nuclear families. Secondly, the range of goods and services provided by the family declines rapidly over time and as economic development takes place. For the United States, where the process has perhaps gone furthest, Fuchs has remarked that in recent times "one of the most persistent themes that emerge from the data ... is the fading role of the conjugal family as the major institution of US society".¹⁰⁷ The corollary is that the family in less developed societies does many things which the state, firms, religious organisations and other institutions, which can be referred to as more "formal" institutions, do in more developed societies.¹⁰⁸

Families provide or have provided a large number of goods and services, so that trying to list the most common ones cannot be of much value.¹⁰⁹ Ben-Porath has remarked that families are commonly involved in joint production of goods and services (either for selling in the market or for consumption by the household), joint consumption, and in the provision of insurance. For the purposes of this study the role of the firm as producer of services providing social security is important. In the fields of income support and consumption smoothing, education, health provision and housing, families still play an important role in most societies. Here, the focus will be on the role of the family in mitigating risks and in providing education. These are two of the roles of families which have often been discussed.

It has often been surmised that families, in whatever form, play an important role in the removal of uncertainty in traditional or poor communities.¹¹⁰ Recent studies of the nature

¹⁰⁷Fuchs (1983:53), quoted in North (1985:390).

¹⁰⁸See Burgess and Stern (1991:59) and Rosenzweig (1988:1167).

¹⁰⁹See, for example, Zapf's list, quoted above. Breton mentions "shelter, food, protection, security, insurance, child care, nursing and convalescence services, unemployment relief, assistance to the elderly and single mothers, loan guarantees, ... protection against homelessness and destitution", as well as referring to such private goods as "visits, telephone calls, and monetary transfers". Note that many of the goods and services that are consumed by households will be jointly produced by the household and other institutions, for example firms.

¹¹⁰Becker (1981:233).

of inter-family transfers in developing countries have confirmed this interpretation of interaction between family members. Rosenzweig, on the grounds of evidence from India, talks of "kinship ties" as "implicit insurance based transfer schemes which contribute to consumption smoothing".¹¹¹ Burgess and Stern argue that "(t)ransfers between related or proximate individuals have been shown to serve the purposes of risk mitigation, insurance against income shortfalls, support for the elderly in retirement, help during illness (and) unemployment insurance...".¹¹² Many of the functions of formal, state-based income support schemes (insurance or assistance) then fall within the domain of the family or kinship group in less developed societies.

In the case of education, the kinship group tends to play a more important role in societies that are less developed. While in modernized societies families do play a role in the provision of education¹¹³ it is probably true to say that the largest share of education is provided by the state in formal institutions. Against this Becker has stressed the importance of the family as a body for the transfer of specialized skills and knowledge and for the "certification" of such knowledge in traditional societies.¹¹⁴ This role of the kinship group as hoarder and disseminator of specialized and "empirically ascertained knowledge", as well as the locus for the use of such knowledge in production, has also been confirmed by Rosenzweig's recent accounts.¹¹⁵

It is important to explain the reasons for the predominance, or comparative advantage, of the family in these functions in certain situations as well as the conditions which create and maintain this superiority. This will also provide an explanation of why the range of services fulfilling social security provided by the family tend to become narrower over time. Initially, the reason for the comparative advantage of the family in the provision of insurance and then in education will be looked at.

¹¹¹Rosenzweig (1988:1197).

¹¹²Burgess and Stern (1991:59).

¹¹³See, for example, Zapf (1984:272).

¹¹⁴Becker (1981:237).

¹¹⁵Rosenzweig and Wolpin (1985) and Rosenzweig (1989).

A number of characteristics of families in traditional communities are important in explaining their significant role in providing insurance. These characteristics all contribute to lowering the transaction cost of insurance or, in other words, to lowering the cost of free-riding. Especially in the field of insurance, information problems can lead to prohibitive transaction costs in the case of impersonal markets. These high costs are related to two well known problems associated with risk-pooling through insurance, namely adverse selection and moral hazard.¹¹⁶ Both these problems have their origin in the costliness and asymmetrical distribution of information, and can be seen as part of a more general "incentive problem" threatening collective action.¹¹⁷

Adverse selection relates to the fact that in impersonal insurance markets the true riskiness of the client cannot be ascertained by the insurer, while the client has sufficient information to evaluate whether insurance is worth his or her while. Because of this inability to distinguish between good risks and bad risks an "average" premium will be charged. This premium will drive low risks out of the market while providing coverage only to high risks, resulting in high costs of insurance and inefficiency. Some people who want to insure do not because prices do not reflect the real risks.

Moral hazard refers to the fact that the insured can influence the likelihood of the event leading to payment. This may lead to the non-availability of insurance where the insured can affect the probability of the relevant event taking place at little cost to themselves. The absence of insurance, in such a situation, can be seen as resulting from the inability to calculate the likelihood and the likely size of losses. In other cases the extent of the loss may be subject to manipulation which will also result in high and inefficient costs of insurance.¹¹⁸

There are many ways of addressing these informational problems. Adverse selection can be addressed by looking at previous claims records and disclosure of relevant information. The problem of moral hazard can be addressed by coinsurance, deductions or verification

¹¹⁶For elementary discussions see Barr (1987:115-119) and Friedman (1990:523-530).

¹¹⁷Platteau (1991:136).

¹¹⁸Barr (1987:117).

of loss.¹¹⁹ Needless to say, these methods all consume resources as a result of the need to obtain information. This would increase the transaction cost of providing insurance. Personal exchange, of which transactions between kin would be one example, reduces these information costs.

The relatedness of kin and their intimate knowledge of each other would lead to trust and an absence of opportunistic behaviour, which underlie the problems of moral hazard and adverse selection. While the physical proximity of the transacting parties normally entailed in kin insurance lowers the cost of monitoring the different parties, the need to again transact in future (the existence of repeat binary transactions) will tend to make (implicit) contracts self-enforcing. In addition, individuals cannot afford sanctions in the form of expulsion from the community. This effectiveness of sanctions, not enforced by a third party, can also explain why moral and social pressures function as efficient methods of controlling free-riding in families. Opportunism and selfishness are also more likely to be tempered by altruism and love within the family circle than outside it.¹²⁰

It should be clear from the above that a number of conditions are necessary to make it possible for families to lower the transaction costs of providing insurance. A few of them are physical proximity of the parties, the existence of repeated transactions, a lack of alternative opportunities and intimate knowledge of the different transactors. It is exactly these conditions that will be undermined by the changes associated with the process of economic development. The increased mobility and earning opportunities associated with economic development will lead to fewer repeat interactions and difficulties of monitoring. Kin will also become less dependent on income opportunities within the family and thus less vulnerable to sanctions. Comparative advantage as a result of low transaction cost is thus lost.

It should further be remembered that the family achieves its low transaction cost partly through sacrificing the benefits available from specialization and it thus represents a trade-off

¹¹⁹Barr (1987:118).

¹²⁰For a discussion of these matters see Ben-Porath (1980), Breton (1989), Becker (1981) and Rosenzweig (1989).

in terms of high production costs.¹²¹ The spread of markets and the greater conglomeration of people through urbanization allow specialization in the provision of insurance as well as the spread of risks over a larger number of people. The co-variance of risks associated with family insurance is then also improved in this way. This might lower other aspects of the costs of production of insurance. The benefits of interacting in small groups "resulting from the specialization by identity"¹²² will then not weigh up to benefits that can be extracted from specialization by type of service.

More or less the same scenario holds for the provision of education by the family. In a stationary society with limited income earning opportunities, family-specific assets as well as intimate knowledge about the use of such productive assets, normally in a very risky production environment, are very important. The knowledge of elderly members of families is thus extremely valuable to the younger generation. In such an environment membership of a specific family might also play an important role in the certification of skills and knowledge.¹²³ On the other hand, the non-specialized nature of many activities (for example household chores) might enable general education within the family to be sufficient for making a productive contribution.

Once again dynamic change will threaten the supremacy of the family, this time in the provision of education. As a result of new opportunities for earning incomes, technological change and the imperative to specialize, the inherited knowledge of older generations becomes less indispensable. Family education is now on the one hand too specific (concerned with specific productive assets) but on the other hand too general (that is not catering to the needs in the more specialized work environment). Urbanization and the lowering of transport costs lead to possibilities of offering education at lower opportunity cost because of increased specialization and scale economies. Schools take certification out of the hands of the family. The increased formal labour force participation of women as

¹²¹North (1984:259).

¹²²Ben-Porath (1980:1).

¹²³Becker (1981:239-240). See also Rosenzweig and Wolpin(1985) and Rosenzweig (1988).

development progresses implies an increased opportunity cost of home production. This will also apply to the home production of educational services.¹²⁴

The above two examples then show how economic change can affect the comparative advantage of an institution in the provision of social services, in this case education and income support. In both cases broad categories of services (education/risk mitigation) which were adequately provided by a specific institution or a number of institutions were dealt with. As a result of economic development, certain changes affect the context in which the service must be provided. This change of context (eg. greater specialization, urbanization and mobility) makes it impossible for the institution to compete in the provision of these services to the same extent as before. This inability to compete results from two factors. On the one hand specialization and the spread of markets make these services more cheaply available in the market than the family can provide them. On the other hand the changing structure of the economy also makes it more difficult for the family to exact payment from its members for services rendered, leading to increased free-riding and transaction costs. It would be possible to prove the same point for other services providing social security, such as health and housing.

It is also likely that the loss of one of its functions might have the effect of hastening the demise of the family. For example, the loss of its ability to provide education and the fading of the significance of family specific capital make it impossible for elderly people to exact services from younger generations. Whereas income support earlier could serve as a precondition for later access to assets and the sharing of specialized information the older generation now has no "bargaining chip". What has happened is that the opportunities for trade between household members have diminished. Alternatively it can be argued that the reduction of the efficiency of the enforcement mechanisms of the family has led to the fact that certain transactions which could have benefited all members of the family will not be concluded.¹²⁵

¹²⁴North (1985:390).

¹²⁵This is the gist of Becker and Murphy's (1988) explanation of the efficiency enhancing role of state intervention in a large number of cases such as education and pensions.

3.5.5 Some aspects of community and small group provision of support

Intermediate to family transactions, which imply little specialization and low transaction costs, and the central government, with its formal entitlement rules and enforcement mechanisms, there are a large number of institutions or associations providing social services. These are often organized on the basis of the geographical proximity of members (local government), religious affiliation or specific needs (voluntary child welfare). These various organizations use different methods of exacting contributions to finance their services in the light of the inability of charging a clearly defined price. These organizations might also be affected by economic development, both in their ability to exact a contribution (enforce payment) as well as in the appropriateness of the service which they deliver. In so far as these institutions use tie-ins and social pressures to exact contributions (control free-riders), a reduction in their efficiency in this respect and thus their comparative advantage can thus be expected. In the case of religious organizations, increased secularization implies fewer contributions to the church in the form of both money and human resources. This makes it more difficult for the church to fulfil some of its customary functions such as poor relief and health provision.

The same forces seem to have weakened the provision of security by communities. In the 19th century in the United Kingdom and even later in the United States, the financing and administration of poor relief was the responsibility of local communities.¹²⁶ Weaver has referred to the negative effect of "increased density, heterogeneity and mobility of the population" on locally provided poor relief.¹²⁷ Some of the problems identified are the strain on local funding of relief as a result of the non-local nature of the problem due to the mobility of people. Furthermore, the increasing complexity and size of communities increased the informational demands of identifying "deserving" cases (needed to control free-riding) while the effectiveness of social pressures in limiting free-riding was on the decrease. The commitment of the community to caring for the different categories of needy also declined

¹²⁶See Weaver (1982:21-24) for evidence on the USA and Barr (1987:9-12) for evidence on the United Kingdom.

¹²⁷Weaver (1982:22).

as a result of the weakening of communal ties. This necessitated institutional adjustments consisting of increased private charitable action and public sector coordination.¹²⁸

In a different context, namely that of risk-sharing mechanisms in traditional village societies as described by Platteau, comparable effects of economic development on local social security schemes can be observed.¹²⁹ Whereas inter-family transactions can be construed as one way of addressing the high transaction costs involved in reducing risk under certain conditions, the traditional village community can be seen as an alternative way. According to some, this is a highly successful alternative method of dealing with these incentive problems.¹³⁰ The effectiveness of village provision relies on a number of factors. The pervasiveness of risk and uncertainties (and the consequent high cost of information), as well as the absence of formal methods of monitoring (records, for example) and enforcement are countered in a number of ways, so that risk mitigation through implicit insurance schemes does in fact take place.

The factors leading to insurance in this situation are the high net benefits of insurance and the reduction of transaction costs through substantial "specialization by identity" and restricted privacy. Customary rules and moral codes, as well as the serious implications of opportunistic behaviour¹³¹ or, more generally, the nature of the system of rewards and penalties, furthermore reduce the cost of enforcement and transacting. These comparative advantages will be reduced by the process of economic change. Platteau refers to the effect of development on these security systems via increased population growth and growing market penetration. Population growth increases the pressure on scarce resources and leads to steps to limit access to traditional support systems such as communal land and sharing of output. Market penetration affects many of the traditional social relations (repeat

¹²⁸Weaver (1982:23-24).

¹²⁹Platteau (1991:136-139 and 158-161). The discussion above is a selective summary of the indicated pages in Platteau. See also Gilbert (1976) on the continued usefulness of traditional support systems in developing countries.

¹³⁰Platteau (1991:137).

¹³¹Opportunistic behaviour will lead to inability to trade within the community, which is very serious given the lack of alternative opportunities.

interaction, intimate knowledge, personalized exchange) and so reduces the informational advantage of the local economy.¹³²

3.5.6 State and market in the provision of social services

Numerous factors associated with economic development, and more specifically industrialization, will make the provision of certain services in the field of social security by certain institutions prohibitively "expensive". This is the result of possible cost savings as a result of specialization, on the one hand, and increasing transaction costs associated with traditional ways of provision. Continued provision by these associations and households will then be inefficient and provision by the state and markets can be viewed as an exploitation of this entrepreneurial opportunity and the self-interested endeavour on the part of consumers to buy from the cheapest source. It is, for example, clear that many of the erstwhile functions of the family were taken over by markets (personal insurance and savings opportunities) while others have been taken over by the state (consumption smoothing, education, health, personal social services).

A last, and not insignificant, problem is to explain why, in many cases, the state - and not private firms - stepped into the breach. This is normally explained with reference to the existence of externalities and the public good characteristics of the services involved or, as resulting from "the pressure for income distribution"¹³³. It was argued in Chapter 1 that this is not sufficient. Many external effects are internalized and public goods provided without government intervention. Increased government provision must be explained as resulting from the procurement by consumers of services from the most efficient producer. The most efficient producer is the one with the comparative advantage in, or the lowest cost of, production.

Following the approaches of Breton and North it was further argued in this chapter that the cost of controlling opportunism, or transaction costs, seem to be an important explanation of the state's ability to provide goods and services more cheaply than other institutions.

¹³²See Platteau (1991:158).

¹³³North (1985:391).

Savings on transaction costs can also be part of the explanation of the state "outbidding" private firms in the provision of certain services providing social security. Such an explanation must, however, be tentative as making conclusive comparisons of costs and cost structures is out of the question. Once again only broad arguments which show that government provision can be rationalized in terms of comparative advantage can be presented. What Becker and Murphy said in the context of government intervention regarding the family ("We cannot *prove* that efficiency guides state involvement in the family. We ... show, however that state interventions in the market for schooling, the provision of old age pensions, and access to divorce are consistent on the whole with the efficiency perspective."¹³⁴), is also true here.

The notion of the state as a provider of certain collective goods because of its ability to reduce transaction costs also underlies Mueller's analysis of the voluntary provision of public goods.¹³⁵ The whole analysis (which to an extent summarizes the discussion of the declining role of the family) can be described in the terminology of game theory, as has been done by Mueller.

In certain situations cooperation in the provision of a public good might be efficient, but selfish individuals will fail to optimize because of the dominance of the non-cooperative outcome. That is, if both maximize selfishly,

- (1) they are both worse off than they would be if both cooperated but
- (2) each is better off than he would be if only he cooperated.

Such a Pareto-inefficient outcome can be avoided if the two parties can come to some sort of an agreement, or if it can be ensured that both cooperate. The fewer the number of players and the more the number of games that are played, the easier will it be to elicit cooperation. While the simplicity of the situation will make it easier to realize what the optimal strategy would be, the repeated interaction and smallness of the group enables detection of non-cooperation and the ability to follow strategies which can elicit cooperation,

¹³⁴Becker and Murphy (1988:2). Italics in the original, underlining added.

¹³⁵Mueller (1989:9-13).

such as "punishing" non-cooperative plays or playing "tit-for-tat".¹³⁶ In an industrializing society with a "large, mobile, heterogenous community" (and absence of repeat plays) deciding on what the optimal outcome is, detecting non-cooperation and eliciting cooperation might need some inducement mechanism such as tie-ins, compulsory taxation and formal systems of monitoring and enforcement.¹³⁷

In the case of such complex societies there would be a number of reasons why the state would have a comparative advantage in providing these public goods. Mueller has argued that "given that government exists to resolve one set of market failures, they may economize on transaction costs when used to resolve others" and that "government as an institution for achieving a Pareto-optimal allocation of resources, exists to economize on the transactions and bargaining costs of obtaining information on individual preferences regarding public goods and externalities when the number of individuals is large".¹³⁸ The state then represents an institution in society specializing in the provision of goods where transaction costs are high because of information problems. As a result of this specialization economies of scale are developed.

Earlier it was argued, using the theories of Breton and North, that the means of free-rider control in the hands of the state, namely compulsory taxation, became more efficient as a result of changes associated with economic development. The increased number of transactions as well as the rise of impersonal exchange were associated with more formal recording of transactions and increased use of formalized accounting systems.¹³⁹ Together with the increasing importance of wage labour (employees as against self-employed people), this made the monitoring of tax dues as well as the introduction of new, more productive and flexible taxes possible. North concludes that especially the modern income and sales taxes have led to an increased ability and efficiency of financing

¹³⁶Mueller (1989:9-13, especially 12-13).

¹³⁷Mueller (1989:13-14).

¹³⁸Mueller (1989:35). Note that Mueller's argument is not that government intervention is justified by market failure. The argument is more subtle: some coordination may be needed in societies of a certain complexity and given such a need, specialization by one body in providing these services can be optimal.

¹³⁹Breton (1989:738).

government action.¹⁴⁰ While other institutions were losing their ability to control free-riders, the means used by government were becoming more efficient. In such cases shifting "purchases" from other institutions to government might result in savings.

Many of the services providing social security entail serious informational problems and free-rider problems which may prevent "mutually advantageous bargains"¹⁴¹ from being concluded. The resulting inefficiency can take the form of non-availability of the service, or conclusion of transactions at a price at which less than the efficient amount is procured. In these contexts state provision provides an efficient outcome while private provision through markets will be non-existent or serve only parts of the market.

3.6 Explaining the diversity of systems of provision

Although all countries are affected by industrialization and economic growth, it is unlikely that convergence to identical support systems will take place. Such a view is supported by the diversity of the systems of countries at more or less the same level of development, as was discussed. The systems of different countries tend to differ with reference to numerous criteria such as the level of stateness and fragmentation, objective of and level of benefits and entitlement mechanisms. The question is then how to account for this diversity in the light of the fact that all countries are subject to the same forces of modernization. As has been argued earlier, this diversity can be seen as the result of the fact that the changes associated with industrialization interact with significantly diverse political and social systems in different countries. The type of democracy (direct or representative) or its presence or absence at specific points in the development of social security might be one such factor. Another factor might be the strength of specific traditional institutions providing social security and their ability to adapt to changing economic circumstances.

¹⁴⁰North (1985:391-392).

¹⁴¹To use Graaff's (1989:255) "modern" definition of market failure.

3.7 Implications of the analysis

David Friedman, commenting on the peculiarities of the "economic analysis of law", remarked on "the way in which economists tend to convert issues from disputes about equity, justice, fairness or the like into disputes about efficiency" and "that economic analysis frequently demonstrates the existence of efficiency arguments for rules usually thought of as based entirely on considerations of justice".¹⁴² Although not dealing with law, this chapter endeavoured to move the discussion about state provision of social security from the realm of social justice and to show that there may be efficiency gains from increased state provision of social security. This was done not because efficiency needs to be seen as the only important objective but rather to show that some of the most prominent arguments against extensive state provision of social security might be missing the mark.

This view can be contrasted with two other widespread views. They are the common arguments that state provision of social security is a luxury, and therefore only within reach of the developed countries, and, secondly, that such provision must entail efficiency losses as it is essentially concerned with redistribution. In contrast it was argued that services providing social security are normal services which are in demand in all societies, including poor societies, because of the riskiness of the environment. As a result of economic development, the ability of institutions traditionally delivering these services to continue delivering is undermined. As a result of the cost reducing possibilities of specialization and the ability of economizing on transaction costs, the state can step into this breach. Growing state provision then need not only imply a reassignment of functions but also an efficiency gain. State provision not only replaces provision by other institutions but may free resources for other activities.

The above conclusions have a number of implications with relevance to issues surrounding the extension of formal social security in developing countries. More specifically these implications reflect on the necessity, affordability, timing and likelihood of growing government provision of social security.

¹⁴²Friedman (1989:180).

Firstly, greater government provision of social security should not detract from future growth but should tend rather to enhance growth because it implies more efficient provision of certain services. If this is the case, expansion of state provision of social security is advisable. Secondly, because government provision presents a mere reallocation of functions between institutions on grounds of efficiency and not the provision of extra or new services, these activities should use less resources than before. If looked at in terms of aggregate resources available, state provision should thus be affordable. Although these services should be affordable, the specific way in which they are financed might entail redistribution. Redistribution is here, however, incidental to enhancing efficiency and the good of all. Increased total production should imply that any redistribution would be short-term (or entail a redistribution of income over the life-cycle of the taxpayer) and that it should be possible to compensate those who initially lose. The fact that gains are possible is of course not to say that the opportunities will be used. As a result of the uncertainty about what the most efficient outcome is and how it can be reached, significant conflict can arise. The fact that gains are possible does not remove the substantial problem of arriving at the optimising collective choice.¹⁴³

The reasoning in this chapter has implications for the necessity and timing of greater state provision. Because there are alternative institutions that can provide security, the seriousness of the absence of government provision will depend on a number of factors. One of these is the extent to which the development process and its concomitant social and political changes have destroyed the ability of non-government organisations to provide security and whether other groupings (for example employers) are able to respond to the changing environment. It is possible that some kinds of traditional provision might adapt more easily to capitalist development than others or that a specific political structure might nurture or discourage certain institutions.¹⁴⁴ In the light of this, no general rules can be

¹⁴³These difficulties are of course the material of games theory. See Mueller (1989:9-17). It is important to note that such collective decision making is not only necessary in the case of provision by the state or other social groupings. Possible gains from market exchange may also not be forthcoming because of a lack of a system of collective choice whereby the basic rules of the "game" are established. See Mueller (1989:7) for an eloquent statement of this point.

¹⁴⁴The South African situation can illustrate some of these forces. It can be argued that the South African development process was more destructive of community-based organizations as a result of the persistence of the system of migratory labour and because of forced

made about necessity and timing. A lack of response to changing circumstances might, however, result in the extension of the life of ineffective and costly institutions. In this respect the focus should not be on whether social security should be provided, but rather on the suitability of different institutions for providing it.

removals. In addition the lack of trade union rights for Blacks until the 1970's might have reduced the pressure on employers to provide benefits associated with social security. On the other hand the opposition against apartheid might have forged strong community ties and a clear idea of and commitment to what is in the public interest.

PART II THE PROVISION OF SOCIAL SECURITY IN SOUTH AFRICA

INTRODUCTION TO PART II

The second part of this study has two broad aims. Firstly, it is to use the South African experience in order to explore the main themes of this study further. These themes are the complex interplay of different institutions in the provision of social security and the tendency towards "nationalization" of the services providing social security. Closely linked to these themes are questions about the forces leading towards changing provision and especially those relating to the shifting comparative advantage of different institutions. These themes will be examined in terms of brief historical perspectives on some aspects of social provision before 1910 and an interpretation of the experience after 1910.

Secondly, the aim of Part Two is to address questions about the need for expanded state provision of social security in South Africa and the opportunities for and constraints on state action. This will be done through an evaluation of the present system of social provision and an examination of constraints on the expansion of the role of the state.

Chapter 4 consists of historical perspectives on poor relief and educational finance until 1910. This chapter concentrates on illustrating the main themes of this study as mentioned above. The difficulties involved in directly comparing the extent of state provision to that of other institutions in the specific social spheres were analyzed in Chapter 3. As a result of these difficulties, and in order to provide some background for the chapters that follow, chapter 5 provides an analysis of changes in the level and composition of government expenditures. The implications of chapter 5 are in line with those of chapter 6. Chapter 6 looks at the development of institutions and mechanisms providing social security between 1910 and 1990. The focus is on the evolution of institutions rather than on expenditures. Both these sections seem to confirm Bromberger's periodisation of social policy between the late 1930's and 1980 into a number of distinct phases.¹

Chapter 7 provides a characterisation and appraisal of the current system of social provision in South Africa. Chapter 8 consists of an analysis of constraints on the expansion of state provision and likely future prospects in the light of the theoretical explanation of growing state provision in Chapter 3.

¹Bromberger (1982).

The analysis of the historical development of and future prospects for social provision in South Africa seems to confirm the hypothesis of chapter 1 and the theoretical reasoning of chapter 3. Increased state provision of social security does follow economic development and can be viewed as a rational adjustment to changing circumstances. Although it was attempted to obstruct this adjustment in South Africa by refusing to accept the interdependence of all "groups" and trying to force social provision back on traditional structures, the eventual adjustment was "merely" delayed and made more painful.

The economic irrationality of apartheid has often been commented on, especially in the light of its obstruction of what are sometimes described as "natural market forces" through limitations on the movement and entrepreneurial activity of individuals. The failure of apartheid is then adduced as additional evidence of the failure of state-centred systems and the need to limit the activities of the state. This study certainly does not imply the need for extensive control of individuals. It does, however, show that the irrationality of apartheid lies also in the failure to recognize the interdependence of individuals, and in the resulting economic necessity of collective action to provide certain goods and services which have redistributive effects. The implications for economic policy are thus significantly different from those flowing from the alternative interpretation of the failure of apartheid.

CHAPTER 4 BRIEF HISTORICAL PERSPECTIVES ON CERTAIN DEVELOPMENTS IN POOR RELIEF AND EDUCATION BETWEEN 1652 AND 1910

4.1 Introduction

The wide definition of social security used in this study, as well as the length of the period covered, make it impossible to look in detail at all the relevant institutions. The focus is therefore on the development of poor relief and some aspects of educational finance because of the availability of suitable sources and the useful illustration which these policies provide of the main themes of this study.

Even focusing on such a narrow field is problematic. Recent historical works have greatly improved understanding of the history of poverty in South Africa and the means by which the poor survived and escaped from poverty.² Most of these works do not, however, focus specifically enough on the provision of security and related public policy for the purposes of this study. Three exceptions, which are consequently used extensively in what follows, are the works by Marais and by Iliffe, and certain parts of the work by Van Onselen.³

Another problem is the scarcity of formal or state institutions catering for the poor in pre-colonial Africa.⁴ This makes it difficult to trace the development of poor relief before the arrival of formal institutions from Europe and has made it necessary to start in the normal eurocentric way with the first European settlement at the Cape in 1652.

The absence of formal institutions in pre-colonial Africa should not be seen as evidence of the absence of any institutions catering for the deprived and vulnerable, nor as evidence of the absence of poverty and insecurity in pre-colonial Africa. Many institutions did, among other things, cater for the poor.⁵ Of these the family, in all its different forms, has been one

²See, for example, Bundy (1979), Van Onselen (1982) and Beinart (1982).

³Iliffe (1987), Marais (1943) and Van Onselen (1982).

⁴Iliffe (1987:7) and Von Braun (1991:404).

⁵See Iliffe (1987) and Von Braun (1991).

of the most important. Although the ability of the African family to serve as an institution providing social insurance has often been exaggerated, Iliffe, in his recent work, concludes that "families were and are the main sources of support for the African poor".⁶ Family structures did, nevertheless, differ between regions in Africa and Iliffe further argues that "family structure was not an immutable ethnic characteristic, but could change to meet changing needs".⁷

The insufficient treatment of less formal ways of dealing with insecurity in pre-colonial and early colonial Southern Africa is a serious shortcoming which must be blamed on the scarcity of historical examinations of these issues. Therefore, without trying to be exhaustive, a brief overview of poor relief in the Cape and Transvaal until 1910 is given. Some remarks are also made about the interaction of public and private financing of education during this period.

In spite of the scarcity of information and the limited coverage, such an overview is useful. Responses to deprivation in the nineteenth century are interesting for a number of reasons. Most importantly it illustrates some of the different avenues through which the poor survived⁸ as well as the variety of public responses to poverty. It further shows the shortcomings of these responses and the pressures making for change.

4.2 Poor relief in the Cape 1652 to 1806

The first settlement of Europeans, employees of the Dutch East India Company (D.E.I.C), can be seen as an effort by the company to lower the occupational risks for their sailors and in one interpretation, to increase profits in this way.⁹ According to Marais the need to be prepared for future deprivation was anticipated by company officials when the first company

⁶Iliffe (1987:7).

⁷Iliffe (1987:8). See also Murray (1981:Chapter 5).

⁸Iliffe (1987:7), identifies four avenues through which the poor can, and have, survived, namely "their own effort", "organisation by the poor themselves", "informal and individual charity" and "through institutions which the wider society created either to care for the poor, to confine them, or to help them escape poverty".

⁹Searle (1987:13 and 19). See also Burrows (1933:27-29).

employees in the Cape were allowed to leave the employment of the company in order to settle and pursue an occupation at the Cape in 1657.¹⁰ A fund financed from certain collections (presumably after church services) and fines was established in anticipation of this.¹¹ From about 1664 assistance was given from this fund to the "really poor"¹² in the form of cash to procure the basic necessities of food, clothing and bedding.¹³ With the formation of the first religious congregation and the arrival of the first appointed minister the responsibility for poor relief, as well as the aforementioned fund for poor relief, became the responsibility of the church. Church and company were, however, closely intertwined with ministers being appointed by and their salaries paid by the D.E.I.C. In return poor relief was expected to be maintained as one of the normal functions of the church. The administration of the poor relief was handled by a deacon - a lay person appointed for this purpose.¹⁴

In addition to the "integrat[ion] of secular and religious philanthropy" established through the use of lay persons by the church¹⁵ this arrangement also exhibited an interesting mix of employer, government authority, church and community sharing the responsibilities for aid to the poor. This mix was also evident in the financing of poor relief expenditures. Funds came from collections at church services, collection boxes ("armbusse") in houses, drinking places and inns, certain fines levied by the government, legacies and fees for trivial and other "services" provided by the church. As a result of the burden of manumitted slaves on church funds, people freeing slaves were forced to pay an amount to the church for every slave emancipated after 1777. This followed an earlier ruling whereby a guarantee had to

¹⁰Marais (1943:1).

¹¹Marais (1943:1).

¹²The really poor were defined as "those burdened with many naked children and who as a result of poverty must sleep on the naked earth or a little straw in the stable with the cows" and also "suffering pregnant women, the needy ill, widows and orphans." (Resolutions of the Policy Council quoted by Marais 1943:2; own translation).

¹³Marais (1943:2).

¹⁴Marais (1943:4-5).

¹⁵Iliffe (1987:79).

be provided that the freed slave would not become a burden to the deacon within ten years.¹⁶

The benefits provided covered a wide range from cash benefits to goods and services in kind.¹⁷ Cash transfers developed from irregular benefits to regular monthly grants to the elderly, the disabled, widows and poor ill people. These transfers were also paid to erstwhile slaves under the same conditions, although after 1705 at a lower rate than for other races. The most important system of benefits in kind was the placement of the destitute, old, and disabled as well as orphans in the care of other households who received an amount of money in return for these services. Apparently this system of out-relief worked well so that the lack of specialized institutions such as orphanages and homes for the old was not felt. This system of relief without institutionalisation was in contrast to the system in Geneva, on which other aspects of the Cape poor relief system was modelled. Whereas such care was given in a vast "General Hospital" in Geneva, the absence of appropriate institutions at the Cape necessitated the provision of care in private homes.¹⁸ Such general "hospitals", fulfilling the function of health care and poor relief, were common institutions in early European poor relief.

In addition to the cash grants, clothing was also provided to the poor, and in some instances, rent. In 1732 six houses were built from the poor fund in order to house some poor families. Provision of food to the poor took place occasionally and sometimes monetary assistance was also given to those in temporary need. Health care for the poor was procured by paying an annual sum to a "surgeon"¹⁹ to treat the poor and provide them with the necessary medicine. Assistance in periods of illness also included monetary assistance and placement in private houses where the ill could be cared for.²⁰ In isolated cases even

¹⁶Marais (1943:9-13).

¹⁷This summary on the nature of relief is based on Marais (1943:13-21).

¹⁸Iliffe (1987:97).

¹⁹For information about the state of medical practice at this stage see Burrows (1953).

²⁰Marais (1943:53-55).

the trips of people to the inland warmbaths for recuperation were financed.²¹ Funds were also used to ensure the education of children of the poor through payment of their school fees and other necessities. At a later stage a "church school" was maintained for the education of children of the poor, orphans and other children in the care of the church. Orphans and children in the care of the church were also placed in houses where they could earn their keep or in positions as apprentices when age allowed.²²

Although no formal criteria to qualify for assistance existed, cases of which the officials of the church did not have personal knowledge were investigated by the deacons and if necessary by the surgeon. In addition to this "means test", assistance was sometimes withheld on the grounds of alleged immoral and other undesirable behaviour. Provision of relief was, however, not limited to members of the Dutch Reformed Church.²³

In the absence of sufficient information on social conditions in the Cape during the late seventeenth and eighteenth century it is difficult to evaluate the impact and effectiveness of this system of poor relief "which survived in essence until the end of Dutch control of the Cape in 1806".²⁴ Making inferences about the forces which shaped the system of poor relief and ensured its apparent stable survival for more than 100 years is also problematic. Marais opines that the provision by the church as branch of the state/company and the method of provision was wholly a result of copying the tradition in the "fatherland".²⁵ The provision of out-relief as a result of the absence of suitable hospitals and institutions such as orphanages and poor houses was the only local innovation.²⁶ In spite of the impossibility of a thorough-going analysis and evaluation, some aspects of this early system of provision are noteworthy.

²¹Marais (1943:21-27).

²²Marais (1943:37-51).

²³Marais (1943:64).

²⁴Iliffe (1987:97).

²⁵Marais (1943:65).

²⁶Iliffe (1987:97); Marais (1943:65).

Firstly, in contrast to current practices, race seems to have been less important as a criterion for access to assistance and social services. According to Marais distinction between "white and brown" was normally not made in matters relating to church and school in the time of the D.E.I.C.²⁷ Although segregated education was not strived for, emancipated male slaves were from 1685 not treated in the hospital, but in the so-called "Slave Lodge".²⁸ Monthly grants to "free blacks" were after 1710 also limited to less than that (about half) paid to other people, although exceptions were made where obvious need existed.²⁹ Thus, in spite of the view ascribed to church authorities that "geen onderskeid dien gemaak te word in liefdadigheidswerk tussen wit en swart nie"³⁰, the roots of present differentiated payments between races can be found far back.

Secondly, expansion of the settled area, the founding of new congregations of the Dutch Reformed Church further inland, as well as the establishment of a Lutheran congregation in the late 1780's created institutional problems for the provision of poor relief.³¹ As the Dutch Reformed Church (D.R.C.) had to provide assistance not only to their own members, it was difficult to find an acceptable division of responsibilities between the two congregations as well as a division of the sources of finance, especially the sum paid on emancipation of slaves. In order to solve this problem a ruling from the political authorities was needed to set out the true responsibility of the different congregations and a joint commission of the two Church bodies was appointed to deal with families with members belonging to both the congregations. The fact that it was not found necessary to make a ruling with regard to people not belonging to either of the congregations seems to indicate that estrangement from the church was not a major problem. The above also indicates the problems that can arise for provision of relief by churches in a more complex society.

The founding of congregations of the D.R.C. further inland led to further problems. The major problem was that most of the new congregations had insufficient resources to provide

²⁷Marais (1943:63).

²⁸Iliffe (1987:98).

²⁹Iliffe (1987:98); Marais (1943:62-63).

³⁰Marais (1943:64).

³¹Marais (1943:28-35).

poor-relief in their early years and had to rely on funds from the Cape Town congregation. Although some congregations eventually succeeded in providing for the poor within their area, others apparently had persistent problems in this regard. In 1791 the political authorities had to step in to assign responsibility for poor-relief in a poorer congregation to a richer congregation, much against the wishes of the richer congregation. The ability of the authorities to enforce such rulings shows that the church at this stage was an agent of the state in the provision of poor relief, and in return for the favours it received from the state it was given well-defined responsibilities.

Finally, the existence of a reasonably formal system of provision in a colonial outpost in the seventeenth century has important implications. It warns against seeing the provision of social security as characteristic of industrialized societies only, and to see affluence as a precondition for establishing formal support systems.

4.3 Developments in the Cape after 1806

In contrast to the harmonious picture of society underlying the description of poor relief by Marais, sources on the nineteenth century present us with pictures of a rapidly changing society, apparently unable to deal with the deprivation resulting from these changes. One symptom of this was growing urban poverty. In the words of Iliffe: "As the nineteenth century progressed, Cape Town's multiracial slums became places of sickening squalor".³²

The 1800's can be viewed as a period of increased visible poverty. In addition to the conjunctural poverty and the poverty of the incapacitated there was at this stage one of the first manifestations in Africa of structural poverty as a result of change and land scarcity.³³ The extent of landlessness among the Khoi at the beginning of the century and the transition from slavery to wage labour were associated with increased vagrancy and deteriorating housing conditions.³⁴ It is also reasonable to assume that the church based poor relief

³²Iliffe (1987:100).

³³For the categorization of different types of poverty, see Iliffe (1987:4-5) and for its application to Southern Africa Iliffe (1987:98 and 114).

³⁴Iliffe (1987:99) and Kinkead-Weekes (1984:3).

system could not cope with the growing influx of people, the geographical expansion of the colony and the increasing heterogeneity and complexity of the society. In this regard it was indicated earlier how even limited geographical expansion and institutional rivalry necessitated intervention and enforcement by the political authorities.

In addition to the changing objective conditions the views of the English authorities on poverty and state responsibility towards the poor differed radically from the Continental approach as reflected by the actions of the Dutch Reformed Church and the Dutch East India Company. As one historian put it, "...Victorian liberalism ... frowned on the poor and helpless".³⁵ Methods of dealing with poverty in the Cape under English rule were in line with the approach of the English Poor Law of 1834. The first line of defence against "deserving" poverty (i.e. poverty resulting from physical disability, old age, etcetera) was seen as own savings, relatives and the community. As a second safety net private charity and institutions were viewed as important, but "indiscriminate" charity was frowned upon and sometimes outlawed. If none of these were available the authorities would provide relief, but then only under controlled and demeaning circumstances, so as not to attract the able-bodied, "undeserving" poor. Out-relief was thus rare and institutionalisation (or "incarceration"³⁶) the preferred way of providing support. The austerity of the institutions served to target relief to only the most desperate or to the "deserving" (the so-called "workhouse test"). With such an approach there could be no systematic and adequate response to the problem of poverty with a consequent multitude of partial responses, many of which denied the true nature of the problem.

Rather than addressing the causes of their condition, the able-bodied poor were prevented from becoming a public nuisance through vagrancy legislation which provided for jail sentences, forced labour and placement in the service of other people.³⁷ For example, during the 1850's relief was given to victims of the cattle-killing subject to "contracting for labour in the colony".³⁸ Urban poverty in the form of slum conditions was dealt with, at

³⁵Peires (1984:169). See also Iliffe (1987:100-101).

³⁶Iliffe (1987:101).

³⁷Iliffe (1987:98-99) and Kinkead-Weekes (1984:4).

³⁸Peires (1984:151).

least since the late 1800's, through segregation and the creation of separate Black locations.

Further examples of all these mechanisms abound. The institutionalisation of the poor in government establishments was visible in the transformation of the erstwhile Old Somerset Hospital to a poorhouse during the 1820's and the change of the former Slave Lodge, used since 1827 as a hospital for emancipated government slaves, to the Pauper Establishment which housed some of the helpless and chronically ill poor and lepers of all races.³⁹ From the middle of the 1840's these paupers, as well as the lunatics and lepers in government institutions, were housed on Robben Island. The different groups were transferred back to the mainland over the years. By 1898 most of the paupers were back on the mainland, the women in Grahamstown and the men back at the Old Somerset Hospital. The lunatics were all moved off the island by 1913, the whites to a new institution, Valkenburg, while the last leprosy patients left Robben Island in 1931.⁴⁰ For the able-bodied poor a Labour Bureau was founded in 1886 and some evidence of relief work, initially for whites affected by the 1899-1902 war, but after agitation extended to Coloureds, can be found.⁴¹

In addition to this inadequate government action, philanthropy and self-help also provided some escape. Many private charitable organizations, mostly run by different religious denominations, were thus founded. During the first half of the century most of these organizations, except for the private Orphan House of 1814, catered for general poor relief and co-existed with the out-relief that the different churches provided for their members. During the second half of the century there was an increase in the number of specialized, still mostly church funded, institutions. These included more orphanages, a school for the deaf and dumb and Salvation Army night shelters.⁴² Self-help efforts were organized mostly around "sick and burial societies" of which a number existed in 1845, but also included a "benefit society of English tradesmen".⁴³

³⁹Iliffe (1987:100-101) and Kinkead-Weekes (1984:3).

⁴⁰Iliffe (1987:100-107) and Kinkead-Weekes (1984:3).

⁴¹Kinkead-Weekes (1984:4-8).

⁴²Iliffe (1987:101-102).

⁴³Iliffe (1987:101).

Self-help also took place less formally. The Cape Malays apparently took extensive care of their poor, while white poverty was often "hidden" by moving further into the interior, benevolence from relatives or a quasi working relationship as "bywoners".⁴⁴

4.4 Poor relief in the Boer republics until 1910

Bottomley, in a paper on "poor whiteism" and poverty in South Africa, has argued that the views of the republican governments with regard to provision of poor relief by the state differed radically from the *laissez-faire* approach of the colonial authorities. He maintains that constitutional provisions implying state responsibilities with regard to the welfare of its citizens were "almost a hundred years in advance of overseas nations". Public policy was guided by the "ideal of collective responsibility for the welfare of the burghers".⁴⁵ In 1898 the chairman of the Transvaal parliament also remarked that he believed no other state did more for its poor than the South African Republic.⁴⁶

The evidence on these views is, however, not conclusive. As Pelzer indicates, relief action by the state stayed "sporadic" during the late 1800's and early 1900's and there was no "fixed policy" of poor relief.⁴⁷ Support was normally given in response to memorials or petitions by burghers or in reaction to serious disasters. Petitions by the old and infirm were normally positively responded to and in 1880 legislation was introduced to regulate the care of orphans by others and by public officials if needed.⁴⁸ After 1895 a single payment was also made to old *Voortrekkers* or pioneers over the age of 70. Since the eighties numerous rulings were introduced to lighten the tax burden of the poor as a result of head taxes and in the nineties relief work was provided for many, especially in road building. Loans or "reconstruction" were also commonly advanced by the Transvaal government against bonds on immovable property. These were financed through a specially formed "amortization fund", funds from the orphan chamber, the postal savings bank and the fund for victims of

⁴⁴Lliffe (1987:100).

⁴⁵Bottomley (1990:17,18 and 21).

⁴⁶Quoted by Pelzer (1942:7).

⁴⁷Pelzer (1941:136-138).

⁴⁸Pelzer (1941:136-138).

the first Boer War. Catastrophes such as the rinderpest and the dynamite explosion, both in the middle-nineties, were responded to through loan schemes, the distribution of mules, donkeys, wagons, maize and wheat and the payment of compensation. Assistance was also given with the education of children of the poor.⁴⁹

As always, state provision did not mean the absence of other collective initiatives to alleviate poverty. Pelzer believes that the major burden of poverty alleviation around the turn of the century still fell on the churches. The fact that the churches provided poor relief was in at least one case used by the government to refuse aid to a private charity.⁵⁰ In Pretoria the Pretoria Charity Society provided night shelter and other assistance, while in Johannesburg the Salvation Army managed soup kitchens, night shelters for men and a "social farm" for the "destitute, poor and sick".⁵¹

A particularly interesting series of events in the development of social security, as told by Van Onselen, was ushered in by the founding in 1895 of the Present Help League in Johannesburg.⁵² This organization, funded to a large extent by the mine-owners, catered especially for skilled mine workers who became unemployed. This left the increasingly impoverished families of unskilled, especially Afrikaner, workers to rely on already badly frayed communal support structures. In the midst of deteriorating economic conditions in 1897 mass action by the Afrikaner unemployed led to a number of responses from other social classes. Mine owners offered jobs for unskilled Afrikaners on the mines, the government announced the Main Reef Road project to provide relief work, and the merchants and shopkeepers founded another welfare organization in order to contain unemployment and its possible destabilizing effects. Subsequent disruptions such as the wars, periodic economic downswings and continual agitation by the unemployed led to increasingly coordinated and concerted efforts to address the problems of insecurity. Although the clearance of "insanitary areas" was one response to these disruptions, another side of the response

⁴⁹For all the schemes mentioned above see Pelzer (1942:1-17).

⁵⁰Pelzer (1942:22 and 25).

⁵¹Pelzer (1942:23-24).

⁵²Van Onselen (1982:126).

was the coordination of all charities under the Rand Aid Society and further municipal relief works.

In 1908 the Rand Aid Association, under the pressure of increased unemployment, ran out of emergency funds and had to curtail its operations. The resulting response to the deprivation, and agitation from the unemployed, marked a further move towards a broadly based attack on the problem of insecurity in a changing society. The Rand Unemployment Investigation Committee was formed which had representation from all the important groups in the society: the state, employers, local authorities and workers. This committee coordinated the placement of "550 men on government public works, 652 on the municipality's relief work and over 3000 men as unskilled workers on the mines" as well as "a couple of hundred Afrikaners ... on various land settlements".⁵³

Although the history cannot be recounted here in enough detail to reflect the full complexities and implications for state provision of social security, some essential points are reflected by these episodes. Firstly, there is a need for the provision of social security even in relatively poor societies, not because of humanitarian concerns, but because insecurity threatens the stability and survival of societies. Secondly, although many types of responses from many different institutions are possible, under many conditions nothing but a coordinated effort, headed by the state, will be able to deal with the threats of insecurity and the burden cannot be shouldered by the directly affected section of the community only. Taken together, these initiatives and changes can be seen as evidence of the need for coordinated action to ensure social security and the growing inadequacy of voluntary provision and self-help in a rapidly changing South Africa.

4.5 Some remarks on educational provision before 1910

Educational provision up to 1910 illustrates the variety of institutions that can provide the services related to education as well as the persistent growth of government intervention in this sphere. The increasing role of government in this sphere can be seen especially in the expansion of government financing of education. The increased financing is normally associated with increased inspection and regulation of schools and the qualifications of

⁵³Van Onselen (1982:154).

teachers. Making education compulsory for children of school-going age normally implies the final step in "nationalization" because such compulsion implies government responsibility to provide school places and free education.

Until the beginning of the nineteenth century in the Cape, and even later in the interior, education was financed by the individual household (private) while, as was indicated previously, the Church assisted with the education of children of the poor. Religious authorities normally had direct control over education.⁵⁴ In 1737 the first mission school for black children was also founded.⁵⁵

With the introduction of English rule at the Cape in 1806, State/Church cooperation continued in education, especially with reference to the control of curricula and standards. Some free government schools with imported English teachers were also opened, while the general policy of anglicization stimulated the growth of Dutch private schools.⁵⁶ The rise of a system of secular schools for whites, with mission and church provision of African education, was further strengthened in 1839 with the founding of a Department of Education and the appointment of a Superintendent-general of Education. From here a system of government financial assistance, combined with local responsibility, developed. These practices, which led to District School Boards and a system of grants-in-aid, were formalized in the 1865 Education Act. This act, which provided for the subsidization of local effort on a pound for pound basis, also applied to mission schools, some of which had received government aid since 1841. This aid apparently led to education being available free at some of the mission schools.⁵⁷ By 1910, 91 of 119 ("white") school board districts in the Cape were enforcing compulsory education for children of 7 to 14 years or up to standard four (six years of schooling), who stayed within 5 kilometres of a school. Education up to standard four only became free, that is completely state financed, in 1920.⁵⁸

⁵⁴Hendrie (1936:97). This very brief history relies heavily on Sached (1935), Malherbe (1977 and 1925) and Hendrie (1936).

⁵⁵Malherbe (1977:537).

⁵⁶Malherbe (1925:56).

⁵⁷Malherbe (1977:538-9).

⁵⁸Malherbe (1977:252)

In the Republics there were also rapid change from the private, uncoordinated provision of education by the travelling "meesters", the church and the parents.⁵⁹ In the Free State an Inspector-General of Education was appointed in 1872. Education for those who were not able to pass an elementary literacy test, stayed within a certain distance from a school and were between 14 and 16 years of age, became compulsory in 1895. From 1903 primary education was provided free of charge.⁶⁰

By 1874 the Transvaal also had an extensive system of state-aided schools. Available figures indicate that in spite of the intention of shared responsibility between state and community, the state carried the lion's share of the cost of education.⁶¹ This imbalance probably arose from the exploitation by communities of the state's willingness to assist with the education of poor children and children from poor communities after 1832.⁶² Although there were some reactions to the secular nature and central organization of education (for example, the founding of Dutch schools with a "Christian National" orientation in reaction to English rule), central control was re-established by 1907.⁶³ In 1907 education was made compulsory between seven and fourteen years of age or up to the sixth year of schooling. Primary education became free of charge in 1912.

Segregation in schools was less rigidly controlled than in modern times, especially in mission schools which also provided education for a substantial number of, apparently poorer, whites.⁶⁴ Increased formalization of segregation presumably came with the provision in 1893 of separate public schools in the Cape for coloureds and whites. Mixed attendance was prohibited in 1911. Also in Natal, separate schools, completely financed by government, were founded for coloureds in 1906. In African education the role of the state, in spite of financial assistance through subsidies to mission schools, seems to have been relatively

⁵⁹See Sached (1985).

⁶⁰Malherbe (1977:253).

⁶¹Malherbe (1925:243).

⁶²Pelzer (1941:5-9).

⁶³Malherbe (1925:243).

⁶⁴Malherbe (1977:538).

small. Malherbe argues that "...up to about the time of union in 1910, ninety percent of the cost of Bantu education was borne by missions".⁶⁵

By 1910 White education was then to a large extent in the hands of the state. This is seen in the widespread complete state financing of primary education and the expansion of compulsory education, implying a commitment to make resources available. In contrast with this, black and coloured education was still largely in the hands of the missions and churches. The state did, however, assist to some extent in the financing of these schools. Schooling for these groups was also not made compulsory to any extent, showing a lack of state commitment to the provision of education for these groups.

4.6 Conclusion

As a result of the underdevelopment of the history of social institutions of early South Africa the dynamics of changing social provision remains very much uncharted territory. More conclusive work awaits a more focused analysis of administrative sources and the available anthropological and historical work.

In spite of these lacunae, the foregoing broad overview has some value. This is so in spite of its focus only on formal social security, excluding a multitude of mechanisms by which households and communities protect themselves. The value of the overview lies in the fact that it reinforces, from a historical perspective, some of the conclusions reached in Part 1 on theoretical and comparative grounds.

More specifically these historical examples reinforce the following aspects:

- Most societies have a variety of mechanisms to protect members against certain contingencies and to deal with deprivation. There seems to be a complex interaction between these different institutions with complete dominance by a specific institution being a rarity.
- The systematic public (or social) provision for the poor and the assumption by central authorities of responsibilities in the social sphere are not limited to

⁶⁵Malherbe (1977:540).

wealthy, industrialized societies. The provision of social security should thus not be seen as a "luxury".

- The changing social structure associated with economic development, especially the expansion of the scale and the increasing complexity of society, creates supply problems for less formal and less broadly based institutions. This normally entails a need for coordination by the state or the assumption of responsibility for certain services by the state.

CHAPTER 5 GOVERNMENT EXPENDITURE: CHANGING RELATIVE IMPORTANCE AND COMPOSITION - 1910 TO 1990

5.1 Introduction

In the previous chapter some of the growing pressures for public coordination of services providing social security in South Africa were pointed out. In this chapter a first set of evidence is evaluated in order to establish whether subsequent periods do in fact reflect such a shift towards state provision or, as it is suggested, "nationalization" of these services.

One way of measuring such shifts is given by Natrass who argues that "if one wanted to look at the changing contribution that the state is making to economic activity as a whole one would like to have data relating to output levels of the public and private sectors in the different spheres of the economy".¹ An important problem in this regard is that it is difficult and sometimes impossible to obtain this information. The problem, however, lies deeper. The underlying problems of classification, definition and valuation were discussed extensively in Chapter 2. That discussion is also relevant for the analysis of the South African situation.

As a result of the difficulties in making direct comparisons between state provision and provision by other organizations, an analysis of the changing importance of state expenditure in South Africa and its composition is provided. For the purposes of this discussion it is important to remember that analyzing the role of government by looking at the level of expenditures implies the adoption of a narrow definition of government output and ignores serious problems of valuation.

Particularly important in this regard is the possibility that non-quantifiable aspects of government intervention may counteract the effect of government provision of more conventional goods and services. Although this is a very general problem, relating to the adverse indirect effects of government action, it has special significance in the South African case where legislative restrictions on the mobility and the ability to accumulate wealth of certain groups of people have been severe. Government provision of goods and services over the last few decades, including transfers, could be interpreted as "progressive" or "redistributive"

¹Natrass (1988:235).

in the sense that Blacks (of whom the majority can be classified as poor) received more from government expenditure than they paid in taxes. The effect of rules, which are less easily quantifiable, were, however, in the opposite direction and possibly stronger than the "progressive" measures.²

It does seem clear that those programmes which changed the "secondary distribution" of income in favour of Blacks were outweighed by policies restricting the freedom of blacks and thus blocking improvements and worsening the "primary distribution"³ of income. This is the only way in which the almost static income distribution between racial groups in the face of the increasing relative size of the black population between the 1940's and 1970's can be explained.⁴

In spite of the problems of analyzing government expenditure in this way it has its uses. Some of these were indicated in Chapter 2 and are also relevant here. Most importantly it provides some indication of changing priorities attached to different services. In addition a general picture of government expenditure provides a useful background for the more detailed discussion of the historical development of specific social services. In the next section the changing level and economic composition of the government budget is discussed. Thereafter a discussion of some of the salient aspects of the functional composition of state expenditure follows.

5.2 The relative importance of government expenditure and the different economic categories

Analyzing aggregate government expenditure in South Africa is complicated by a number of factors. The fragmentation of responsibilities for services between different levels of government as well as the "autonomy" granted to certain fiscal authorities (specifically the

²See Abedian (1984) and McGrath (1979:29).

³The concepts of "primary" and "secondary" distribution is from Bromberger (1982:168) and are explained there. This article by Bromberger is also an excellent introduction to the complexity of the influence of government on the economy.

⁴For the historical figures on the South African size and racial income distribution see Bromberger (1982:139) and Van der Berg (1989e:36-37).

homelands and other racially based authorities) make it impossible for the individual researcher to construct a reliable time-series of total government expenditure from estimated expenditures (budgets) and the reports on these by the relevant Auditor-Generals.⁵ It is thus also necessary to use national income statistics on government expenditure in the determination of levels and trends.

In spite of the variety of definitions of government activity and total production it is a general conclusion of the different studies which looked at government expenditure in relation to the size of the economy in South Africa that government expenditure as a share of total production has increased steadily since at least 1940, although some short-term reversals did take place.⁶ This experience is then normally interpreted as indicating the general validity for the South African case of "Wagner's Law". This "law" postulates a positive relationship between the government's share in the economy and the level of total output.⁷ The South African experience in this regard is seen as being in line with international experience.⁸

Abedian and Standish looked at total public sector expenditure, working mostly from audited expenditure figures (financial statistics) of the different authorities. They found that public sector expenditure grew from R162 million in 1920 to R45 533 million in 1982. The real growth rate of this expenditure (6.2 per cent per annum on average) exceeded that of total output, so that public expenditure as a percentage of gross domestic product at factor cost

⁵The analysis of Simkins et al. (1985) is instructive. They estimate from budgets of central, provincial and homeland budgets that "allocable and non-allocable government expenditure" in 1983 (presumably the 1983/84 financial year) amounted to R22 992.1 million (Table 2 pp.6-7). The more complete estimate of the Central Statistical Services (1990b) puts total expenditure in that financial year at R27 603 million. This implies an underestimate of about 20 percent in the Simkins *et al.* study. Although the figures used are perhaps sufficient for their purposes, the variance indicates the possibility for confusion. For an example of the type of work, and assumptions, needed to work from estimated expenditures, even for selected years, see Brand (1984).

⁶See Abedian and Standish (1984:391-392); Van der Berg(1991:3-7); Mohr and Rogers (1991:66); De Looer (1984:25-26) and Maasdorp (1990:196-197).

⁷Abedian and Standish (1984:399 and 405) and Van der Berg(1991a:1 and 3).

⁸Mohr and Rogers (1991:66) and De Looer (1984:25).

increased from 29 per cent in 1920 to 63 per cent in 1932.⁹ It is, however, difficult to evaluate the accuracy of these estimates.¹⁰

National income figures, available from 1946, indicate that total public sector expenditure increased from 24 per cent of gross domestic product at market prices (GDP_{MP}) at current prices in 1946 to 35.53 per cent in 1939 (see Table 5.2).¹¹ It is, however, more conventional to exclude the expenditures of public corporations and government enterprises when calculating the share of government in the economy. The focus is then not so much on the extent of government control, but rather on the extent of "non-marketed output".¹²

General government expenditure (see Table 5.2) as a share of GDP_{MP} increased from just less than 20 per cent in 1946 to above 30 per cent by 1939, after having dropped to below 17 per cent in 1951.¹³ This trend was mainly driven by general government resource consumption (general government consumption expenditure plus gross domestic fixed investment by general government). General government consumption expenditure increased from 10.11 per cent of GDP at market prices in 1946 to 19.56 per cent in 1939, with a low of 8.6 per cent in 1949. Gross domestic fixed investment by general government increased from 1.6 per cent of GDP_{MP} in 1946 to an average of about 4 per cent during the 1970's, but dropped back to an average of 2.23 per cent during the 1980's, with a ratio of 2.17 per cent in 1989. These tendencies are interpreted by Van der Berg as showing that "current expenditure [by general government] is crowding out not only private sector

⁹Abedian and Standish (1984:391-392).

¹⁰See Van der Berg (1991a:7). Footnote 3.

¹¹The difference between the estimates of Abedian and Standish and those derived from national income statistics should be the "consumption expenditure" by public enterprises and corporations (i.e. wages, raw materials, etc.) These items are not included as public sector expenditure using national income figures (only investment by all the components of the public sector are taken into account). Or put differently, part of what is counted as private consumption expenditure in the national accounts is moved to government consumption expenditure in the calculation by Abedian and Standish.

¹²Atkinson and Stiglitz (1980:15).

¹³Van der Berg (1991a:4).

activities, but also public capital expenditures".¹⁴ Gross domestic investment by public enterprises and corporations also started declining in the 1970's.

Resource transfers by general government also show an upward trend over the last four decades, from an average of 6.45 per cent of GDP_{MP} during the 1950's to an average of 9.56 per cent during the 1980's. This trend is, however, largely due to the growing relative importance of government interest payments. These interest payments increased from less than one per cent of GDP_{MP} in the 1950's to more than four per cent after 1983. Subsidies also grew slightly in importance with current transfers to households staying relatively constant, but capital transfers declining in importance, especially during the 1980's.

¹⁴Van der Berg (1991a:9-10).

TABLE 5.1
PUBLIC SECTOR EXPENDITURE
(Current R million/1946-1989)

YEAR	GDP AT MARKET PRICES 1. SARB 6506	TOTAL EXPENDITURE BY			RESOURCE CONSUMPTION				RESOURCE TRANSFERS BY GENERAL GOVERNMENT					
		PUBLIC SECTOR 2.	PUBLIC AUTHORITIES 3.	GENERAL GOVERNMENT 4.	CONSUMPTION EXPENDITURE BY GENERAL GOVERNMENT 5. SARB 6561	GROSS DOMESTIC FIXED INVESTMENT BY ORGANISATION			TOTAL 9. (10+11 +13+14)	INTEREST ON PUBLIC DEBT 10. SARB 7546	SUBSIDIES 11. SARB 7006	CURRENT TRANSFERS TO HOUSEHOLDS 12. SARB 7512	TRANSFERS TO THE REST OF THE WORLD 13. SARB 7550	CAPITAL TRANSFERS 14.
						BY GEN. GOV. 6. SARB 6603	BY GOVERNMENT ENTERPRISES 7. SARB 6604	BY PUBLIC CORPORATIONS 8. SARB 6601						
1946	1704	463	402	308	175	29	64	7	136	22	25	50	2	28
1947	1860	535	521	439	192	33	65	11	214	21	25	52	2	114
1948	2077	521	473	370	190	39	103	43	141	22	21	54	2	42
1949	2231	561	520	406	193	47	122	33	166	23	22	53	3	54
1950	2597	535	516	440	234	49	106	39	157	21	21	58	3	44
1951	2309	600	569	470	247	55	99	39	168	24	33	62	3	41
1952	3011	748	692	570	295	72	122	52	203	25	45	71	5	57
1953	3424	902	802	638	320	73	170	96	235	24	47	73	4	87
1954	3636	933	830	673	327	80	157	79	266	24	43	96	5	98
1955	3573	929	876	704	355	90	174	51	256	25	41	93	3	94
1956	4106	1002	949	756	397	102	192	54	267	30	41	102	1	93
1957	4439	1076	1020	811	403	114	209	50	294	35	37	105	1	115
1958	4569	1275	1201	904	430	124	237	74	350	39	40	109	1	161
1959	4849	1206	1121	900	447	132	231	84	315	35	43	121	1	115
1960	5141	1233	1157	933	476	141	218	66	322	36	39	127	3	117
1961	5406	1277	1209	1006	513	165	263	69	327	42	39	135	3	100

TABLE 5.1
PUBLIC SECTOR EXPENDITURE
(Current R million/1946-1999)

YEAR	GDP AT MARKET PRICES 1. SARB 6506	TOTAL EXPENDITURE BY			RESOURCE CONSUMPTION				RESOURCE TRANSFERS BY GENERAL GOVERNMENT					
		PUBLIC SECTOR 2.	PUBLIC AUTHORITIES 3.	GENERAL GOVERNMENT 4.	CONSUMPTION EXPENDITURE BY GENERAL GOVERNMENT 5. SARB 6561	GROSS DOMESTIC FIXED INVESTMENT BY ORGANISATION			TOTAL 9. (10+11+12+13+14)	INTEREST ON PUBLIC DEBT 10. SARB 7546	SUBSIDIES 11. SARB 7006	CURRENT TRANSFERS TO HOUSEHOLDS 12. SARB 7512	TRANSFERS TO THE REST OF THE WORLD 13. SARB 7550	CAPITAL TRANSFERS 14.
						BY GEN. GOV. 6. SARB 6683	BY GOVERNMENT ENTERPRISES 7. SARB 6651	BY PUBLIC CORPORATIONS 8. SARB 6631						
1962	5774	1401	1321	1127	607	177	134	80	343	45	47	145	4	102
1963	6406	1616	1498	1259	675	190	209	118	394	48	50	152	7	137
1964	7032	1851	1730	1441	765	219	269	121	457	50	58	165	4	180
1965	7682	2206	2079	1693	851	292	381	156	555	66	68	184	2	235
1966	8364	2403	2209	1840	958	320	389	191	562	77	79	194	2	210
1967	9055	2652	2416	2004	1022	327	392	208	685	97	100	207	2	279
1968	10125	2932	2827	2250	1121	361	407	255	725	125	99	227	2	225
1969	11095	3266	2967	2592	1293	452	465	269	857	102	113	266	3	293
1970	12473	3796	3452	2905	1516	519	467	336	950	177	141	299	3	340
1971	13767	4536	4181	3556	1828	629	625	357	1099	194	165	320	4	404
1972	15535	5381	4852	4016	1937	729	806	429	1250	250	167	371	4	558
1973	19218	5450	4710	4122	2219	716	539	710	1167	293	153	434	7	290
1974	23690	6951	6049	5110	2902	925	939	902	1333	349	212	565	11	246
1975	28646	9340	7983	6348	3657	1130	1337	1357	1761	395	294	679	15	309
1976	30020	11352	9904	8012	4465	1301	1792	1548	2246	439	440	793	19	505
1977	33283	12352	10490	8933	5034	1323	1557	1862	2576	602	462	920	24	568

TABLE 5.1
PUBLIC SECTOR EXPENDITURE
(Current R million/1946-1989)

YEAR	GDP AT MARKET PRICES 1. SARB 6506	TOTAL EXPENDITURE BY			RESOURCE CONSUMPTION				RESOURCE TRANSFERS BY GENERAL GOVERNMENT					
		PUBLIC SECTOR 2.	PUBLIC AUTHORITIES 3.	GENERAL GOVERNMENT 4.	CONSUMPTION EXPENDITURE BY GENERAL GOVERNMENT 5. SARB 6561	GROSS DOMESTIC FIXED INVESTMENT BY ORGANISATION			TOTAL 9. (10+11+12+13+14)	INTEREST ON PUBLIC DEBT 10. SARB 7546	SUBSIDIES 11. SARB 7006	CURRENT TRANSFERS TO HOUSEHOLDS 12. SARB 7512	TRANSFERS TO THE REST OF THE WORLD 13. SARB 7550	CAPITAL TRANSFERS 14.
						BY GEN. GOV. 6. SARB 6603	BY GOVERNMENT ENTERPRISES 7. SARB 6634	BY PUBLIC CORPORATIONS 8. SARB 6601						
1978	39247	13701	11360	9072	5526	1297	1453	2311	3048	796	564	1013	23	663
1979	45772	16431	13453	11775	6329	1503	1679	2972	3913	1519	561	1292	18	613
1980	60328	20731	16599	14697	8158	1760	1902	4132	4629	1555	842	1231	15	936
1981	71690	24120	20043	17594	9377	2070	2344	3912	5557	1796	959	1420	40	1274
1982	90531	29645	25665	22177	12381	2472	3128	3900	7644	2003	1063	1331	224	1543
1983	94457	34031	29650	26231	14115	2398	3419	4301	9718	3354	1534	2060	230	2150
1984	107221	39714	34820	31720	17927	2607	3169	4634	11186	4343	1992	2720	309	1831
1985	123126	47507	41567	37842	21297	2927	3725	5940	13616	5458	2657	3331	326	1933
1986	142135	53166	47935	41211	25672	3331	3824	5271	15208	5501	3137	4094	310	1746
1987	164524	59017	54900	51529	30599	3793	3371	4917	17132	6721	3712	4509	491	1399
1988	193110	67046	61335	59325	35276	4411	3640	5001	19630	7951	3992	5365	330	1090
1989	232532	82733	75345	71615	44308	5946	3730	7398	22261	10570	4658	5032	343	1548
1990	222650	90560	81989	77864	50478	4819	4105	8571	22529	11111	5235	5332	161	

SOURCES: South African Reserve Bank (1981a and 1991b) and De Loor (1984). Capital transfers until 1973 from De Loor. Thereafter estimated from financial year estimates in South African Reserve Bank (1991b).

TABLE 5.2
PUBLIC SECTOR EXPENDITURE
Relative to GDP at market prices (%)

YEAR	GDP AT MARKET PRICES 1 SARB 6506 (R million)	TOTAL EXPENDITURE BY			RESOURCE CONSUMPTION				RESOURCE TRANSFERS BY GENERAL GOVERNMENT					
		PUBLIC SECTOR 2	PUBLIC AUTHORITIES 3	PUBLIC CORPORATIONS	CONSUMPTION EXP. BY GENERAL GOVERNMENT 8	GROSS DOMESTIC FIXED INVESTMENT BY ORGANISATION			TOTAL 14 (15+16+17+18)	INTEREST ON PUBLIC DEBT 15	SUBSIDIES 16	CURRENT TRANSFERS TO HOUSEHOLDS 17	TRANSFERS TO THE REST OF THE WORLD 18	CAPITAL TRANSFERS 19
						BY GEN. GOV. 9	BY GOV. ENT. 10	BY PUB. CORP. 11						
1946	1704	24.00	23.59	19.34	10.27	1.64	3.78	0.41	7.92	1.29	1.47	3.40	0.12	1.64
1947	1890	28.46	27.67	23.35	10.21	1.76	4.52	0.59	11.33	1.12	1.33	2.77	0.11	6.06
1948	2077	25.05	23.77	17.51	9.15	1.03	4.96	2.31	6.79	1.05	1.01	2.20	0.10	2.02
1949	2231	25.15	23.67	18.20	8.65	2.11	5.47	1.48	7.41	1.03	1.26	2.29	0.13	2.42
1950	2557	22.61	21.11	17.01	9.05	1.89	4.10	1.51	6.07	0.81	1.20	2.24	0.12	1.70
1951	2503	21.64	20.26	16.73	8.79	1.98	3.52	1.39	5.93	0.85	1.35	2.21	0.11	1.46
1952	3011	24.24	22.93	18.93	9.80	2.39	4.05	1.66	6.71	0.93	1.49	2.36	0.17	1.99
1953	3424	26.34	22.54	16.57	9.55	2.13	4.06	2.00	6.56	0.70	1.27	2.13	0.12	2.51
1954	3606	24.68	22.52	16.26	8.87	2.17	4.26	2.14	7.22	0.65	1.17	2.60	0.14	2.66
1955	3933	23.92	22.61	18.13	9.22	2.32	4.49	1.91	6.59	0.64	1.03	2.40	0.03	2.42
1956	4106	23.94	22.65	18.06	9.25	2.44	4.59	1.29	6.35	0.72	0.93	2.41	0.02	2.22
1957	4430	24.29	23.02	18.31	9.10	2.57	4.72	1.26	6.64	0.79	0.84	2.39	0.02	2.20
1958	4589	27.91	26.29	19.79	9.41	2.71	6.50	1.62	7.66	0.95	0.89	2.39	0.02	3.52
1959	4049	24.65	23.12	18.66	9.22	2.85	4.56	1.73	6.50	0.72	0.89	2.50	0.02	2.37
1960	5141	23.79	22.51	18.26	9.26	2.74	4.24	1.28	6.26	0.70	0.76	2.47	0.06	2.29
1961	5406	23.82	22.93	18.61	9.49	3.07	3.76	1.26	6.05	0.78	0.72	2.50	0.06	2.09
1962	5774	24.26	22.89	19.52	10.51	3.07	3.26	1.39	5.94	0.78	0.61	2.51	0.07	1.77

TABLE 5.2
PUBLIC SECTOR EXPENDITURE
Relative to GDP at market prices (%)

YEAR	GDP AT MARKET PRICES 1 SARB 6506 (R million)	TOTAL EXPENDITURE BY			RESOURCE CONSUMPTION				RESOURCE TRANSFERS BY GENERAL GOVERNMENT					
		PUBLIC SECTOR 2	PUBLIC AUTHORITIES 3	PUBLIC CORPORATIONS	CONSUMPTION EXP. BY GENERAL GOVERNMENT 8	GROSS DOMESTIC FIXED INVESTMENT BY ORGANISATION			TOTAL 14 (15+16+17+18)	INTEREST ON PUBLIC DEBT 15	SUBSIDIES 16	CURRENT TRANSFERS TO HOUSEHOLDS 17	TRANSFERS TO THE REST OF THE WORLD 18	CAPITAL TRANSFERS 19
						BY GEN. GOV. 9	BY GOV. ENT. 10	BY PUB. CORP. 11						
1993	6403	25.23	23.55	19.25	10.54	2.97	3.73	1.64	6.15	0.75	0.78	2.37	0.11	2.14
1994	7032	26.32	24.60	20.49	10.55	3.11	4.11	1.72	6.50	0.71	0.52	2.35	0.08	2.56
1995	7692	29.09	27.06	22.10	11.03	3.29	4.96	2.03	7.22	0.86	0.39	2.46	0.03	3.06
1996	6321	28.73	26.41	22.09	11.45	3.33	4.41	2.32	6.72	0.92	0.94	2.32	0.02	2.51
1997	9355	28.35	25.83	21.74	10.92	3.50	4.08	2.52	7.32	1.04	1.07	2.21	0.02	2.90
1998	10125	28.46	25.35	21.33	11.07	3.57	4.02	2.52	7.29	1.23	0.96	2.24	0.02	2.81
1999	11395	28.66	26.20	22.75	11.26	3.87	3.55	2.36	7.52	1.60	0.99	2.33	0.03	2.57
1970	12473	26.37	27.68	23.93	12.15	4.16	3.74	2.63	7.62	1.42	1.13	2.32	0.02	2.73
1971	13767	22.96	26.37	25.83	13.28	4.57	4.54	2.59	7.90	1.41	1.22	2.39	0.03	2.93
1972	15595	31.59	31.23	25.85	12.47	4.69	5.33	2.76	8.69	1.61	1.07	2.39	0.03	3.59
1973	19216	28.29	24.51	21.45	11.55	3.73	3.06	3.09	6.16	1.52	0.65	2.26	0.04	1.51
1974	23690	26.91	25.53	21.57	11.83	3.90	3.96	3.61	5.84	1.47	0.89	2.33	0.05	1.04
1975	26246	35.05	29.96	24.94	13.84	4.50	5.02	5.09	6.61	1.48	1.07	2.55	0.06	1.46
1976	30020	37.61	32.66	26.69	14.87	4.93	5.97	5.16	7.48	1.63	1.47	2.64	0.06	1.68
1977	33263	37.13	31.54	26.86	15.13	3.90	4.63	5.60	7.74	1.81	1.39	2.77	0.07	1.71
1978	33247	35.82	29.70	25.01	14.45	3.39	3.89	6.12	7.97	2.06	1.47	2.65	0.06	1.73
1979	45772	35.90	29.39	25.73	13.83	3.35	3.67	6.51	8.55	3.32	1.23	2.63	0.04	1.34

TABLE 5.2
PUBLIC SECTOR EXPENDITURE
 Relative to GDP at market prices (%)

YEAR	GDP AT MARKET PRICES 1 SARB R596 (R million)	TOTAL EXPENDITURE BY			RESOURCE CONSUMPTION				RESOURCE TRANSFERS BY GENERAL GOVERNMENT					
		PUBLIC SECTOR 2	PUBLIC AUTHORITIES 3	PUBLIC CORPORATIONS	CONSUMPTION EXP. BY GENERAL GOVERNMENT 8	GROSS DOMESTIC FIXED INVESTMENT BY ORGANISATION			TOTAL 14 (15+16+17+18)	INTEREST ON PUBLIC DEBT 15	SUBSIDIES 16	CURRENT TRANSFERS TO HOUSEHOLDS 17	TRANSFERS TO THE REST OF THE WORLD 18	CAPITAL TRANSFERS 19
						BY GEN. GOV. 9	BY GOV. ENT. 10	BY PUB. CORP. 11						
1980	69329	34.26	27.51	24.21	13.52	2.92	3.36	6.05	7.77	2.63	1.25	2.14	0.02	1.63
1981	71969	33.99	28.49	24.23	13.90	2.91	3.06	5.50	7.82	2.53	1.35	2.09	0.07	1.79
1982	80621	36.01	31.37	27.51	15.25	2.70	4.33	4.94	9.49	3.59	1.22	2.40	0.26	1.92
1983	91457	37.21	32.42	28.68	15.43	2.62	3.74	4.79	10.63	3.71	1.73	2.56	0.25	2.35
1984	107221	37.04	32.53	29.55	16.72	2.43	2.95	4.51	10.43	4.65	1.66	2.54	0.28	1.71
1985	123126	38.53	32.76	30.73	17.30	2.39	3.03	4.32	11.06	4.43	2.16	2.71	0.27	1.49
1986	142135	37.58	33.65	31.10	18.66	2.34	2.55	3.71	10.70	4.15	2.21	2.87	0.24	1.23
1987	161524	36.36	33.37	31.32	18.60	2.31	2.05	2.90	10.41	4.05	2.26	2.92	0.30	0.85
1988	156116	33.84	31.28	29.44	17.01	2.23	1.84	2.56	9.41	4.01	2.62	2.71	0.17	0.50
1989	232532	35.58	32.46	30.86	18.65	2.17	1.60	2.15	9.57	4.59	2.61	2.16	0.15	0.67
1990	262659	34.48	31.22	29.85	19.22	1.83	1.56	3.26	8.60	4.23	2.60	2.28	0.06	N.A.

SOURCES: South African Reserve Bank (1991a and 1991b) and De Loor (1984). Capital transfers until 1973 from De Loor. Thereafter estimated from financial year estimates in South African Reserve Bank (1991b).

These trends indicate that South Africa has not yet experienced the seemingly typical phase of public sector development where the expansion of social security systems leads to a rapid increase in the importance of transfers to households in the government budget and tends also to increase the measured role of the government in the economy.¹⁵ A rough comparison of the South African experience with that of the United States and the average for fifteen developed countries is given in Table 5.3. In contrast to the developed countries, transfers in South Africa are relatively low and the constancy of transfers in the South African economy remarkable.

Table 5.3
GOVERNMENT RESOURCE TRANSFERS RELATIVE TO GDP
(per cent)

YEAR	USA	AVERAGE FOR 15 DEVELOPED COUNTRIES	SOUTH AFRICA (CALENDAR YEARS)
1953/54	5.5	11.9	6.99
1959/60	6.7	12.9	6.35
1963/64	7.5	13.8	6.25
1968/69	8.7	16.2	6.80
1973/74	11.0	18.8	7.08

SOURCE: Van der Berg (1991a:6, Table 1) and Mueller (1989:3-36, Table 17.5)

The absence of a "progressive" or "modern" trend in transfer payments in South Africa is also shown by the fact that current government transfers to households as a percentage of current personal income has fluctuated between three and four per cent between 1960 and 1989 with the exception of a few brief periods (see Table 5.4). This compares with percentages of above twelve per cent in six of the important OECD countries in 1975 (See Table 5.5).

¹⁵Van der Berg (1991a:2), De Loor (1984:33) and Goode(1984:56).

Table 5.4
CURRENT TRANSFERS RECEIVED FROM GENERAL GOVERNMENT
(R million and as a percentage of GDP and personal income -
current prices)

YEAR	GDP AT MARKET PRICES (R million) SARB 6506	CURRENT INCOME (R million) SARB 7515	CURRENT TRANSFERS RECEIVED FROM GENERAL GOVERN- MENT (R million) SARB 7512	TRANSFERS AS A PER- CENTAGE OF GDP	TRANSFERS AS A PER- CENTAGE OF CURRENT INCOME
1960	2587	-	58	2.24	-
1965	5141	3719	127	2.47	3.11
1970	12473	5755	263	2.12	3.20
1980	60222	37046	1291	2.14	3.48
1981	71020	42427	1430	2.03	3.49
1982	90521	50037	1931	2.14	3.86
1983	91457	52829	2260	2.58	4.01
1984	107221	70250	2720	2.54	3.87
1985	123126	79798	3291	2.71	4.17
1986	142135	96313	4054	2.87	4.51
1987	164524	116445	4959	2.92	4.35
1988	193110	123745	5385	2.71	4.14
1989	202532	152068	5002	2.18	3.29
1990	262250	177758	5932	2.26	3.37

Source: South African Reserve Bank (1991a).

Table 5.5
GOVERNMENT TRANSFERS TO PEOPLE AS A PERCENTAGE OF PERSONAL INCOME
(SOUTH AFRICA AND SELECTED DEVELOPED COUNTRIES
- 1975)

COUNTRY	PERCENTAGE OF PERSONAL INCOME
USA	12.6
CANADA	13.1
UNITED KINGDOM	13.9
FRANCE	21.3
GERMANY	16.7
SWEDEN	17.7
SOUTH AFRICA	3.6

Sources: S.A.R.B., *Quarterly Bulletin*, June 1991 and Musgrave and Musgrave (1980:141, Table 7.1)

The decline in the relative importance of transfers to households as a percentage of current income from 4.35 per cent in 1987 to 3.29 per cent in 1989 (Table 5.4) is also associated with a declining share of transfers to households as a percentage of current general government expenditures (see Table 5.6). After averaging just under 17 per cent of current government expenditure in the 1950's transfers declined to 13.59 per cent on average in the 1970's and to just under 10 per cent on average between 1980 and 1990. From 10.14 per cent in 1988 transfers to households dropped to 8.19 per cent of current general

government expenditure in 1990.

Table 5.6
GENERAL GOVERNMENT - CURRENT EXPENDITURE AND TRANSFERS TO HOUSE-
HOLDS

YEAR	CURRENT EXPENDITURE 1. R million SARB 7551	CURRENT TRANSFERS TO HOUSEHOLDS 2. R million SARB 7512	TRANSFERS AS A % OF CURRENT EXPENDITURE 3. % (COL2/COL1)
1950	347	59	16.71
1960	691	127	18.65
1970	2126	399	18.59
1980	11261	1291	10.88
1981	14160	1420	10.45
1982	16462	1921	10.46
1983	21253	2260	10.88
1984	27292	2720	9.97
1985	33077	3331	10.07
1986	39124	4024	10.44
1987	46292	4909	10.38
1988	52914	5065	10.14
1989	65001	5002	7.74
1990	72065	5982	8.19

Source: South African Reserve Bank (1991a).

It can be concluded that particularly since the 1960's the relative importance of the government in the South African economy increased significantly when measured by government expenditure as a percentage of total production. Added to the apartheid legislation impinging on individual freedom, which probably reached its apex in the early 1970's, this gave the government an extensive influence over the economy, in contrast to its modest role at the beginning of the century. This conclusion holds whichever concept of government expenditure is used and notwithstanding the inclusion or exclusion of capital expenditures or resource transfers.¹⁶ This interpretation is corroborated by looking at other possible indicators of the role of government in the economy, such as public sector employment relative to total employment and public sector share of fixed capital and of investment.¹⁷

Mohr and Rogers conclude from evidence similar to the above that "the size of government spending in South Africa increased significantly during the post-war period" and that "(t)his

¹⁶See De Loor (1984:25).

¹⁷See Wilson quoted by McGrath (1979:2-3) and Nattrass(1988:235).

was in accordance with international trends". Further, that "the rate of growth of government spending since 1965 and the current levels of government spending in South Africa are not particularly high".¹⁸ Although the South African experience reflects many ambiguities and peculiarities, Mohr and Rogers' conclusion is clearly true for general government consumption expenditure. Figures for 1988 show that South Africa's general government consumption expenditure at 17.3 per cent of GDP_{MP} is close to the OECD average, but quite a bit higher than the nine per cent of Japan (see Table 5.7). With regard to total general government expenditure the South African 31.9 per cent is, however, significantly below the OECD average of 47.3 per cent for 1985 and compares with the Japanese figure of 32.7 per cent (Table 5.8). This differential "performance" in terms of consumption expenditure and total expenditure can be partly explained by the relative stagnancy of transfers to households in South Africa over the last four decades. Thus, if increased relative government expenditure implies a bigger role for government, this "nationalization" seems not to have taken place in the sphere of income transfers and support. Clarification of the sources of government growth however necessitates a look at the changing functional composition of government expenditure. This is shown in the next section.

Table 5.7
CONSUMPTION EXPENDITURE OF GENERAL GOVERNMENT IN RELATION TO GDP
(Percentage/South Africa and selected OECD and other countries)

COUNTRY	1960	1971	1975	1983	1988
GERMANY	13.4	16.9	10.5	20.0	19
ITALY	12.8	15.5	15.4	19.5	15
JAPAN	8.0	8.0	10.1	10.2	9
NETHERLANDS	12.8	16.0	17.4	17.7	18
SPAIN	7.4	8.6	9.2	12.3	15
U.K.	16.4	17.8	21.8	22.0	19
U.S.A.	16.9	18.5	19.1	19.3	20
AUSTRALIA	9.4	12.5	15.4	17.6	19
NEW ZEALAND	10.7	12.9	14.8	17.0	15
PORTUGAL	10.5	13.5	15.0	14.0	14
OECD (W.A.)					17
S.A.	9.5	13.2	13.9	15.7	18
ZIMBABWE					19
BRAZIL					12
ARGENTINA					11

Sources: Mueller (1989:327, Table 17.4); World Bank (1990:134-195, Table 9); Table 5.1 above.

¹⁸Mohr and Rogers (1991:68).

TABLE 5.8
GENERAL GOVERNMENT EXPENDITURE RELATIVE TO GDP (Percentage/South Africa and selected OECD countries 1960 and 1985)

COUNTRY	1960	1985
GERMANY	32.1	47.2
ITALY	30.1	59.4
JAPAN	19.3	32.7
NETHERLANDS	32.7	60.7
SPAIN	18.8	39.3
U.K.	32.3	47.8
U.S.A.	27.0	36.7
MEAN (ALL OECD)	26.6	47.3
S.A.	18.3	30.7

Source: Mueller (1993:222 Table 17.2) and Table 5.2 above.

5.3 The changing functional composition of government expenditure

A number of factors makes the construction of a useful time-series of the functional categories of government expenditure problematical, especially in the South African case. At this stage these problems preclude a definitive analysis of long-term trends in the composition of government expenditure. The origin of these problems can be related to the fact that economists have traditionally focused on the revenue side of the budget, especially taxation. Furthermore, the relative importance and total size of government expenditure as well as the deficit before borrowing, rather than the composition of expenditure, are seen as being essential.¹⁹ These factors have led to a scarcity of studies on the composition of government budgets as well as the absence of widely accepted categories of government expenditure. One result of this is that expenditures are often treated in an ad hoc fashion in government and other publications.

More specifically, institutional change (shifting of responsibility between departments and levels of government and the creation of new, more specialized departments) makes it difficult to trace different functional expenditures over time or to allocate specific expenditures to functional categories²⁰ (for example, government debt servicing). Certain expenditures may also fulfil more than one function. In South Africa the proliferation of fairly autonomous

¹⁹See also Hendrie (1986:24).

²⁰Van der Berg (1991a:4). For the nature of the problem in the field of educational spending see Trotter (1988:10-14).

general government bodies flowing from the ambition to put each "ethnic group" in charge of its "own affairs" has led to the duplication of institutions providing similar services and a removal of significant expenditures from the central government budget. The resulting fragmentation of responsibilities between different levels of government and the fiscal flows following from the centralization of tax authority further obscures the picture.²¹

Most work on the composition of government expenditure in South Africa has been done within the framework of constructing what is called "welfare budgets".²² A welfare budget is then defined as "a joint statement detailing expenditure benefits and tax burdens".²³ For South Africa the efforts to construct such welfare budgets have been few and almost exclusively focused on the differential impact of government taxes and expenditures on different race groups.²⁴ Consequently the functional allocation of expenditures was of secondary importance. In spite of the incompleteness of the information, three sets of data can be used in order to get an idea of the historical evolution of state expenditure. These data cover the financial years 1922/23 to 1939/40²⁵, 1949/50 to 1975/76²⁶ and 1982/83 to 1987/88²⁷.

Table 5.9 presents information on the composition of government expenditure between the financial years 1922/23 and 1939/40. These figures were compiled by the Social and Economic Planning Committee during 1944 as part of an evaluation of proposals regarding the expansion of the social security system. As the committee indicated, the figures should be interpreted with care in the light of the nature of the assumptions and decisions needed to classify all expenditures. It should also be noted that these figures exclude the activities

²¹Van der Berg (1991a:4).

²²See McGrath (1979:1-2) and Hendrie (1986:Chapter 2).

²³Hendrie (1986:25).

²⁴See McGrath (1979:7-11) and Hendrie (1986:39-49) and also their discussions of earlier studies.

²⁵South Africa (1944:97).

²⁶McGrath (1979:19).

²⁷South Africa, Central Statistical Services (1990b) and Van der Berg(1991:8-9).

of local authorities, public enterprises and expenditures on the loan account.²⁸ It thus only deals with current expenditures.

TABLE 5.9(1)

FUNCTIONAL CLASSIFICATION OF GOVERNMENT EXPENDITURE FOR SELECTED YEARS 1922-1940

[CURRENT R thousand]

	1922-23	1927-28	1932-33	1937-38	1938-39	1939-40
TOTAL CURRENT EXPENDITURE	50 426	62 224	61 364	91 706	96 654	102 414
1. GENERAL GOVERNMENT	20 614	25 362	22 612	36 916	37 730	38 362
2. DEFENCE	1 810	2 042	1 442	3 632	3 572	6 062
3. SOCIAL SERVICES	20 210	24 418	26 792	33 038	41 396	42 584
3.1 EDUCATION	13 702	17 694	18 514	23 904	25 042	25 432
3.2 HEALTH	2 836	3 438	3 658	5 666	6 612	6 998
3.3 SOCIAL SECURITY	1 030	722	2 536	5 746	6 634	7 132
3.4 FOOD SUBSIDIES				406	476	438
3.5 OTHER SOCIAL SERVICES	508	772	686	1 090	1 404	1 326
3.6 WAR PENSIONS	2 078	1 732	1 398	1 236	1 228	1 208
4. ASSISTANCE TO FARMERS			3 092	2 334	2 934	3 930
5. PUBLIC DEBT CHARGES	7 792	10 396	7 426	10 896	11 022	11 476

Source: South Africa (1944:97).

²⁸The committee estimated that in 1938/39 the total expenditure of local authorities comprised about R33 million of which R23 million were recovered from fees and receipts for services. Thus we can say about R10 million of general government expenditure is not included in the estimates in the table. This comprised about 10 per cent of total general government expenditure. [South Africa (1944:197)].

TABLE 5.9(2)

FUNCTIONAL CLASSIFICATION OF GOVERNMENT EXPENDITURE FOR SELECTED YEARS 1922-1940
(AS A % OF TOTAL GOVERNMENT EXPENDITURE)

	1922-23	1927-23	1932-33	1937-38	1938-39	1939-40
TOTAL CURRENT EXPENDITURE	100	100	100	100	100	100
1. GENERAL GOVERNMENT	40.83	40.76	36.25	40.29	39.04	37.46
2. DEFENCE	3.53	3.29	2.35	3.96	3.70	5.92
3. SOCIAL SERVICES	40.03	39.24	43.66	41.54	42.83	41.58
3.1 EDUCATION	27.18	28.44	30.17	26.07	25.91	24.83
3.2 HEALTH	5.62	5.62	5.96	6.18	6.84	6.23
3.3 SOCIAL SECURITY	2.14	1.16	4.13	6.27	6.96	7.01
3.4 FOOD SUBSIDIES				0.44	0.49	0.43
3.5 OTHER SOCIAL SERVICES	1.01	1.24	1.12	1.19	1.45	1.29
3.6 WAR PENSIONS	4.12	2.78	2.28	1.40	1.27	1.18
4. ASSISTANCE TO FARMERS			5.04	2.55	3.04	3.84
5. PUBLIC DEBT CHARGES	15.45	16.71	12.10	11.66	11.4	11.21

Source: South Africa (1944:97).

TABLE 5.9(3)

FUNCTIONAL CLASSIFICATION OF GOVERNMENT EXPENDITURE FOR SELECTED YEARS 1922-1940
(AS A % OF GROSS GEOGRAPHIC INCOME)

	1922-23	1927-28	1932-33	1937-38	1938-39	1939-40
1. GENERAL GOVERNMENT	5.51	4.97	5.13	4.93	5.01	4.78
2. DEFENCE	0.48	0.40	0.33	0.49	0.47	0.75
3. SOCIAL SERVICES	5.40	4.79	6.08	5.14	5.50	5.30
3.1 EDUCATION	3.66	3.47	4.20	3.22	3.33	3.17
3.2 HEALTH	0.76	0.63	0.33	0.76	0.33	0.87
3.3 SOCIAL SECURITY	0.29	0.14	0.53	0.77	0.89	0.99
3.4 FOOD SUBSIDIES				0.05	0.06	0.05
3.5 OTHER SOCIAL SERVICES	0.14	0.15	0.16	0.15	0.19	0.17
3.6 WAR PENSIONS	0.56	0.34	0.32	0.17	0.16	0.15
4. ASSISTANCE TO FARMERS			0.70	0.31	0.39	0.49
5. PUBLIC DEBT CHARGES	2.03	2.04	1.63	1.44	1.46	1.43
TOTAL	13.43	12.20	13.92	12.36	12.43	12.75

Source: South Africa (1944:97) and South Africa Bureau of Census and Statistics (1960). NOTE: Financial year geographic income was extrapolated from calendar year information. See footnote 29 for further information.

During this period (1922/23 to 1933/39) total current expenditure grew at a slower rate than total production in the economy (4.15 per cent per annum on average against 4.47 per cent respectively). This resulted in a slight decline in the relative importance of government expenditure. A clear trend can, however, not be identified because of the unstable fluctuation of government expenditure as a percentage of gross geographic income (GGI)²⁹ between 12 and 15 per cent of GGI. Within this relatively unchanging relative share of government the composition of government expenditure between the major categories also stayed reasonably stable, although expenditure on social services did grow faster than other categories, as well as GGI, at 4.53 per cent per annum on average.

The composition of social expenditure changed slightly, with social security expenditure (including pensions, poor relief and social insurance) increasing more than fivefold, and increasing its share of social expenditures from about 5 per cent to about 15 per cent and also increasing as a percentage of total expenditure. Health expenditure and food subsidies (implemented in 1936/37) also increased rapidly, with education spending falling back in relative terms.

The above figures do not indicate a dramatic shift in government involvement in the economy. They do, however, provide some evidence of the start of a process of expansion of welfare and other social services in the late 1930's as identified by Pollak and Bromberger.³⁰ The steady share of social expenditure and the increasing share of "social security" expenditure should also be seen in the context of rapidly increasing defense expenditures in the late 1930's. Given the high average real growth rates in the two decades under discussion (nearly 7 per cent per annum between 1920 and 1930, and 5 per cent per annum between 1930 and 1940³¹) the slightly increased importance of social expenditure can further be seen as a progressive distribution of the fruits of growth.

²⁹The source of information [South Africa, Bureau of Census and Statistics (1960:S3)] refers to "geographical income". This value seems to be the value of total output measured through the production method, that is by looking at value added in the different sectors.

³⁰Pollak (1960:17) and Bromberger (1932:173).

³¹Nattrass (1988:25, Table 2.1).

Judged on McGrath's figures (Table 5.10) government expenditure during the period 1949/50 to 1975/76 lacked the progressive aspects associated with the foregoing period. McGrath's estimates include expenditures of all levels of government except Namibia and exclude capital expenditure. Over the whole period gross government current expenditure relative to personal income stayed reasonably stable at just under 25 per cent. Social expenditures (defined as education, health, transfer payments and others), however, dropped as a percentage of total government expenditure from 48 per cent of total government expenditure to 39 per cent of total government expenditure. This implied a decline in social expenditures relative to personal income.³² This trend was strongest in the case of health and hospitals, transfers and other welfare payments³³ while education maintained its position. The categories which gained in importance were "Justice, Police, Prisons and Defence" and certain economic services, especially "Income Generating Services".

Table 5.10
THE COMPOSITION AND RELATIVE IMPORTANCE OF GROSS CURRENT GOVERNMENT EXPENDITURE IN SOUTH AFRICA, 1949/50 TO 1975/76

EXPENDITURE CATEGORY	1949/50	1969/70	1969/70	1975/7
EXPENDITURE CATEGORY AS A PERCENTAGE OF TOTAL GROSS GOVERNMENT CURRENT EXPENDITURE	11	12	21	25
1. Justice, Police, Prisons, Defence.	12	11	12	16
2. Income Generating Services	23	18	19	14
3. Other services	6	7	7	6
4. Agricultural services and subsidies	18	13	19	19
5. Education	13	13	8	7
6. Health and hospitals	9	10	7	7
7. Transfer payments	9	10	7	6
8. Other welfare services				
9. Gross Current Expenditure as Percentage of Personal Income	24	21	23	25
10. "Welfare expenditures" as a Percentage of Personal Income	13	12.4	11	11.2
11. Items 6, 7 and 8 as a Percentage of Personal Income	7.2	6.9	5.1	4.5
Sources: McGrath (1979:19, Table 9) and Blm-Hns (1991:27).				

The above trend is counter intuitive as well as being out of line with international experience.

³²"Personal income" here is equal to personal income as is normally defined minus social pensions, maintenance grants, unemployment insurance receipts and Workmen's Compensation benefits. See McGrath (1979:24).

³³For example, subsidies on sheltered employment, transport subsidies, welfare and community services and interest losses on housing loans.

Nattrass argued that over this period it would have been more reasonable to expect "that expenditures on such items as health care, education and other state social services would grow faster than total public expenditure, as efforts are made to extend these services into the deprived areas".³⁴ Simkins compared the South African evidence to a cross-section estimate predicting growing importance of public welfare spending to gross national product in middle-income countries. He concluded that South Africa experienced "a perverse movement since 1949 in the proportion of GNP devoted to social security expenditure by comparison with a norm taken from cross-sectional study ...".³⁵

Adequate figures for the period 1975/76 to 1982/83 are not available and compiling them from the original sources could not be attempted here.³⁶ The most complete and reliable figures exist for the financial years 1982/83 to 1987/88. These figures are derived from a study by the Central Statistical Services which includes all types of government expenditure as well as all levels of government, and includes Transkei, Bophutatswana, Venda and Ciskei (the so-called TBVC-states), as well as the self-governing territories. The summarized information has been analyzed further by Van der Berg.³⁷ Summaries of the information are reproduced in current rand, relative to total expenditure and relative to GDP_{MP} as Tables 5.11, 5.12 and 5.13. Table 5.14 provides a further summary according to major expenditure categories.

³⁴Nattrass (1988:239-240).

³⁵Simkins (1984:30).

³⁶Abedian (1984) attempted to use the figures from the annual Budget White Paper to find "a measure, no matter how crude, of the changes in the composition of Government expenditure". [Abedian (1984:2)] His approach is however misleading as he classifies all transfers to Provincial Administrations and local governments as "other expenditure". A sizeable part of these transfers are earmarked for health and education. His method thus results in a significant underestimate of government expenditures allocated to these categories. Furthermore, his category "other expenditures" is such a large part of the total (in one year 42.8 per cent) and so variable (between 27.5 per cent and 42.8 per cent) as to make the identification of trends impossible.

³⁷South Africa, Central Statistical Services, (1990b) and Van der Berg (1991a:8-9).

TABLE 5.11
FUNCTIONAL CLASSIFICATION OF GENERAL GOVERNMENT EXPENDITURE
 (Current R million / 1982-1983 to 1987-88)

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
TOTAL EXPENDITURE	23181	27007	32434	39713	49239	56220
CURRENT	20500	24557	30103	35769	43617	50109
CAPITAL	2680	2450	2331	3944	5622	6111
GDP AT MARKET PRICES	25191	29399	119729	129521	151270	174776
1. GENERAL GOVERNMENT SERVICES	2026	2548	2971	3217	4650	4826
1.1 External affairs	130	219	571	814	322	739
1.2 General research	177	210	262	302	285	421
1.3 Other	1500	1500	2145	2672	3431	3733
2. DEFENCE	3177	3764	4423	4921	6377	7822
3. PUBLIC ORDER AND SAFETY	1342	1663	2202	2396	3035	3922
3.1 Police	259	1062	1386	1535	2062	2624
3.2 Prisons	279	349	502	486	603	751
3.3 Law courts	169	203	374	334	355	400
3.4 Fire protection	29	49	62	71	86	126
4. EDUCATION	4243	4977	6157	7601	9027	10926
4.1 Pre-primary, primary, secondary	2237	2665	4571	5620	7065	8313
4.2 Tertiary	1111	1309	1586	1981	2362	2667
5. HEALTH	2394	2373	2470	3916	4324	5849
6. SOCIAL SECURITY AND WELFARE	1511	1505	2074	2553	3065	3600
7. HOUSING, COMMUNITY SERVICES	514	626	729	1013	1793	1300
7.1 Housing	179	187	229	504	1127	614
7.2 Sewerage and sanitation	90	122	175	169	143	150
7.3 Other	259	315	323	342	569	536
8. RECREATION AND CULTURE	422	477	534	703	778	894
9. FUEL AND ENERGY	37	67	74	147	143	144
10. WATER SUPPLY	285	315	332	323	413	408
11. AGRICULTURE, FORESTRY, FISHING	133	1220	1543	1660	1525	2016
11.2 Subsidies: Agricultural products	201	413	413	456	505	370
11.2 Other	551	262	1134	1203	1220	1646
12. MINING AND MANUFACTURING	597	603	1166	1592	1976	2004
12.1 Mining	152	193	269	313	362	402
12.2 Manufacturing	447	411	897	1279	1614	1603
12.2.1 Atomic Energy Corporation	143	224	370	522	660	719
12.2.2 other	297	357	527	757	954	884
12.3 Construction	0	0	0	0	0	0
13. TRANSPORT AND COMMUNICATION	2491	2389	2529	3034	3695	4120
13.1 Subsidies: Suburban bus passengers	208	274	236	357	450	512
13.2 Subsidies: Suburban train passengers	166	200	115	149	114	160
13.3 Roads and other road transport	1501	1655	1923	2270	2747	3130
13.4 Other transport and communication	292	139	150	300	193	223
14. OTHER ECONOMIC SERVICES	359	427	550	533	941	1513
14.1 Development Bank	0	59	184	310	234	387
14.2 Labour relations and productivity	0	0	0	0	97	117
14.3 Other	359	368	366	523	601	1115
15. UNALLOCABLE	2665	2505	4560	6224	5922	6272
15.1 Interest	2162	4162	5293	6211	7051	8315
15.2 Other (negative values indicate net sales values)	-603	-657	-733	-977	-1219	-1543

Sources: South Africa, Central Statistical Services (1990b) and Van der Berg (1991b).

TABLE 5.12

FUNCTIONAL CLASSIFICATION OF GENERAL GOVERNMENT EXPENDITURE
(As a percentage of total general government expenditure)

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
TOTAL	100	100	100	100	100	100
CURRENT	87.57	89.06	86.06	86.06	89.93	89.16
CAPITAL	12.43	10.94	14.47	14.20	13.77	11.72
1. GENERAL GOVERNMENT SERVICES	8.74	9.03	9.89	9.11	9.55	9.77
1.1 External affairs	1.47	1.33	1.71	1.62	1.70	1.39
1.2 General research	0.76	0.76	0.77	0.76	0.75	0.75
1.3 Other	6.51	6.94	7.41	6.73	7.09	7.63
2. DEFENCE	15.00	13.63	13.28	12.42	13.18	13.90
3. PUBLIC ORDER AND SAFETY	5.79	6.02	6.50	6.03	6.29	6.30
3.1 Police	3.70	3.85	4.09	3.87	4.20	4.59
3.2 Prisons	1.20	1.26	1.59	1.25	1.25	1.33
3.3 Law courts	0.73	0.74	0.82	0.74	0.73	0.75
3.4 Fire protection	0.17	0.16	0.19	0.18	0.20	0.22
4. EDUCATION	10.76	10.03	10.42	10.14	10.28	10.35
4.1 Pre-primary, primary, secondary	10.96	10.28	10.68	10.15	10.20	10.73
4.2 Tertiary	4.79	4.74	4.75	4.99	4.67	4.56
5. HEALTH	10.33	10.42	10.29	9.86	10.18	10.40
6. SOCIAL SECURITY AND WELFARE	6.52	6.54	6.21	6.44	6.33	6.40
7. HOUSING, COMMUNITY SERVICES	2.92	2.97	2.21	2.55	2.63	2.31
7.1 Housing	0.77	0.69	0.71	1.27	2.29	1.93
7.2 Sewerage and sanitation	0.42	0.44	0.52	0.43	0.31	0.27
7.3 Other	1.12	1.14	0.97	0.86	1.05	0.95
8. RECREATION AND CULTURE	1.82	1.73	1.78	1.77	1.61	1.59
9. FUEL AND ENERGY	0.16	0.24	0.22	0.37	0.20	0.26
10. WATER SUPPLY	1.14	1.15	0.99	0.93	0.96	0.72
11. AGRICULTURE, FORESTRY, FISHING	3.59	4.42	4.63	4.18	3.17	3.59
11.1 Subsidies: Agricultural products	1.21	1.51	1.24	1.10	0.83	0.66
11.2 Other	2.38	2.91	3.39	3.08	2.34	2.93
12. MINING AND MANUFACTURING	2.50	2.33	2.49	2.98	3.23	3.56
12.1 Mining	0.66	0.70	0.80	0.60	0.75	0.71
12.2 Manufacturing	1.93	1.63	1.69	2.13	2.13	2.85
12.2.1 Atomic Energy Corporation	0.34	1.09	1.11	1.01	1.08	1.29
12.2.2 other	1.28	1.29	1.53	1.32	1.77	1.57
12.3 Construction						
13. TRANSPORT AND COMMUNICATION	10.75	9.69	7.57	7.79	7.62	7.24
13.1 Subsidies: Suburban bus passengers	1.03	0.99	0.39	0.32	0.30	0.31
13.2 Subsidies: Suburban train passengers	1.98	1.09	0.24	0.23	0.21	0.27
13.3 Roads and other road transport	6.43	6.10	5.77	5.72	5.89	5.85
13.4 Other transport and communication	1.26	0.50	0.57	0.78	0.40	0.51
14. OTHER ECONOMIC SERVICES	1.54	1.55	1.74	2.25	1.94	2.70
14.1 Development Bank						
14.2 Labour relations and productivity						
14.3 Other	1.54	1.54	1.15	1.47	1.16	1.98
15. UNALLOCABLE	11.07	12.70	13.61	13.18	12.05	12.21
15.1 Interest	13.67	15.03	16.14	15.64	14.57	14.86
15.2 Other (negative values indicate net sales values)	-2.60	-2.33	-2.52	-2.16	-2.52	-2.74

Sources: South Africa, Central Statistical Services (1990b) and Van der Berg (1991b).

TABLE 5.13
FUNCTIONAL CLASSIFICATION OF GENERAL GOVERNMENT EXPENDITURE
(As percentage of gross domestic product at market prices)

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
TOTAL	27.01	23.46	29.89	29.66	31.82	32.13
CURRENT	23.82	20.96	26.47	27.61	29.77	29.93
CAPITAL	4.25	4.29	4.25	4.05	4.41	3.77
1. GENERAL GOVERNMENT SERVICES	2.23	2.63	2.61	2.79	3.05	2.82
1.1 External affairs	0.40	0.54	0.50	0.50	0.54	0.45
1.2 General research	0.21	0.22	0.23	0.23	0.24	0.24
1.3 Other	1.77	1.88	1.29	2.05	2.27	2.14
2. DEFENCE	4.03	3.98	3.90	3.31	4.22	4.48
3. PUBLIC ORDER AND SAFETY	1.58	1.71	1.34	1.55	2.04	2.22
3.1 Police	1.01	1.09	1.20	1.19	1.24	1.48
3.2 Prisons	1.20	1.26	1.50	1.25	1.25	1.23
3.3 Law courts	0.20	0.21	0.24	0.23	0.23	0.24
3.4 Fire protection	0.05	0.05	0.05	0.05	0.06	0.07
4. EDUCATION	5.10	5.13	5.41	5.97	6.17	6.23
4.1 Pre-primary, primary, secondary	2.30	3.78	4.02	4.24	4.67	4.76
4.2 Tertiary	1.50	1.25	1.29	1.53	1.50	1.47
5. HEALTH	2.81	2.97	3.05	3.62	3.28	3.25
6. SOCIAL SECURITY AND WELFARE	1.77	1.56	1.82	1.97	2.03	2.06
7. HOUSING, COMMUNITY SERVICES	0.69	0.65	0.65	0.78	1.18	0.74
7.1 Housing	0.21	0.19	0.21	0.39	0.75	0.55
7.2 Sewerage and sanitation	0.12	0.13	0.15	0.13	0.10	0.09
7.3 Other	0.36	0.32	0.29	0.26	0.34	0.31
8. RECREATION AND CULTURE	0.50	0.49	0.52	0.54	0.51	0.51
9. FUEL AND ENERGY	0.04	0.07	0.07	0.11	0.09	0.08
10. WATER SUPPLY	0.31	0.23	0.23	0.28	0.28	0.23
11. AGRICULTURE, FORESTRY, FISHING	0.98	1.26	1.26	1.29	1.01	1.15
11.1 Subsidies: Agricultural products	0.23	0.43	0.26	0.24	0.20	0.21
11.2 Other	0.65	0.83	1.00	0.84	0.81	0.94
12. MINING AND MANUFACTURING	0.70	0.86	1.03	1.22	1.24	1.15
12.1 Mining	0.18	0.20	0.24	0.25	0.24	0.23
12.2 Manufacturing	0.52	0.78	0.79	0.86	1.00	0.82
12.2.1 Atomic Energy Corporation	0.17	0.39	0.53	0.40	0.44	0.41
12.2.2 Other	0.35	0.37	0.47	0.56	0.57	0.51
12.3 Construction						
13. TRANSPORT AND COMMUNICATION	2.32	2.47	2.22	2.39	2.44	2.26
13.1 Subsidies: Suburban bus passengers	0.28	0.28	0.26	0.28	0.27	0.23
13.2 Subsidies: Suburban train passengers	0.54	0.31	0.10	0.12	0.19	0.09
13.3 Roads and other road transport	1.76	1.74	1.70	1.75	1.22	1.32
13.4 Other transport and communication	0.24	0.14	0.17	0.24	0.13	0.16
14. OTHER ECONOMIC SERVICES	0.42	0.44	0.51	0.69	0.62	0.37
14.1 Development Bank						
14.2 Labour relations and productivity						
14.3 Other	0.42	0.38	0.34	0.45	0.37	0.34
15. UNALLOCABLE	3.01	3.61	4.09	4.04	3.26	3.93
15.1 Interest	2.72	4.29	4.74	4.50	4.28	4.31
15.2 Other (negative values indicate net sales values)	-0.71	-0.68	-0.74	-0.75	-0.51	-0.08

Sources: South Africa, Central Statistical Services (1990b) and Van der Berg (1991b).

TABLE 5.14

FUNCTIONAL CLASSIFICATION OF GENERAL GOVERNMENT EXPENDITURE

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
TOTAL (R MILLION)	23181	27607	32424	39713	46389	56260
CURRENT	20200	24697	29103	35760	43517	52408
CAPITAL	2981	4160	4837	6638	6865	6504
GDP AT MARKET PRICES	95191	96939	113739	123624	151270	174776
EXPENDITURE (R-MILLION)						
ADMINISTRATION	3199	4031	4624	5709	7264	8169
DEFENCE	3177	3764	4408	4931	6377	7822
ECONOMIC SERVICES	4594	5984	6229	7744	8598	10219
SOCIAL EXPENDITURES	6787	10266	12449	16098	19099	21205
INTEREST	3163	4162	5193	6211	7051	8415
TOTAL	23191	27607	32424	39713	46389	56260
AS A % OF GENERAL GOVERNMENT EXPENDITURE						
ADMINISTRATION	13.75	14.60	14.23	14.45	15.01	14.52
DEFENCE	15.00	13.63	13.28	12.42	13.18	13.90
ECONOMIC SERVICES	19.76	19.12	19.21	19.50	17.77	18.16
SOCIAL EXPENDITURES	29.32	37.03	37.22	37.99	38.47	38.46
INTEREST	13.67	15.06	16.14	15.64	14.57	14.96
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00
AS A % OF GDP						
ADMINISTRATION	3.74	4.16	4.03	4.43	4.90	4.67
DEFENCE	4.03	3.93	3.90	3.81	4.22	4.48
ECONOMIC SERVICES	5.33	5.53	5.48	5.98	5.68	5.35
SOCIAL EXPENDITURES	10.29	10.60	10.94	11.65	12.63	12.33
INTEREST	3.72	4.23	4.74	4.90	4.66	4.81
TOTAL	27.21	23.46	23.39	20.66	31.99	32.19
Source: Van der Berg (1991b).						

The data (used in conjunction with Van der Berg's estimate of financial year expenditure) confirm the increasing role of government expenditure in the economy during this period, resulting from government expenditure growth consistently above the inflation rate. This growth was reasonably evenly shared among the different categories of government so that all the major categories identified by Van der Berg (administration, defence, economic services, social expenditure and interest payments), increased relative to GDP_{MP} . Three categories, namely interest, administration and social expenditure, grew faster than total expenditure, thus increasing their relative importance in total general government

expenditure slightly. Among social expenditures all categories (education, health, social security and welfare and housing and community services) increased in real terms and relative to GDP and total expenditure. Expenditure on pre-primary, primary and secondary education performed the strongest, increasing by more than 20 per cent per annum on average. This trend in social expenditure would, however, be weakened if food subsidies and subsidies to commuters are included under social expenditures. These expenditures were reduced or phased out to a significant extent over this period.³⁸

Van der Berg concludes that, in spite of the real increase in social expenditure, the mere marginal adjustment in the share of social spending seems contrary to expectations and that the still relatively modest expenditures can perhaps be seen as the result of low priority being given to social security measures.³⁹ Although the period after 1970 then exhibited "limited incorporation of previously disenfranchised groups" it is also true that "ideological and defence expenditures still remained large and even increased and poverty received little attention".⁴⁰

This conclusion is bolstered by also considering some other aspects of economic policy as well as the revenue side of the budget. The increasing focus on the elimination of indirect subsidies (such as the cross-subsidization of railway commuters)⁴¹, the phasing out of subsidies with leakages to the non-poor (such as the bread subsidy and the zero-rating of basic foodstuffs for indirect tax purposes), restrictive monetary policy⁴² and a greater reliance on more regressive indirect taxes⁴³ all affected the poor with little being done to alleviate their plight.

³⁸Van der Berg (1991a:12).

³⁹Van der Berg (1991a:10-12).

⁴⁰Van der Berg (1991a:13).

⁴¹Van der Berg (1991a:12).

⁴²Abedian (1984:20-21).

⁴³Abedian (1984:19) and Hendrie (1986:215-217).

5.4 Conclusion

One clear conclusion from the foregoing is that the role of government in the South African economy has increased dramatically over the last seven decades. From the incomplete evidence it would seem that all functional categories shared in this growth so that accounting for the growth is difficult. Drawing conclusions about changing provision of social services and possible "nationalization" is thus complex.

If relative share in the budget, and its change, indicates priority and changing priority there is some evidence that the 1920's to late 1940's saw increased attention being given to social security, including income support, health and education. This trend, however, was reversed between the early 1950's and middle 1970's with a sideways movement since the mid-1970's. If the size of the different categories relative to some indicator of production is taken, this generalization is vindicated, except that a more progressive adjustment in the 1980's is indicated.

What is surprising is that there has been no marked shift in the importance of welfare expenditures and transfers relative to other expenditures over the period and the clear perverse movement in social expenditures between 1950 and 1975. As indicated earlier, such a trend is contrary to international experience and reasonable expectations. Borcharding has concluded for the American case that the "growth of the share of government in GNP is proximately 'explained' by the tremendous increase of transfer payments relative to that of the economy itself".⁴⁴ As has been indicated in Chapter 2, transfer payments and expenditures on other social services by government can explain a large part of the growth in government in Western Europe and is an important part of the evidence for the nationalisation of social security.

In the light of the above the South African trend is remarkable. Two explanations are

⁴⁴Borcharding (1985:363). See also Von Braun (1991:397-400) for evidence for the developing countries. He concludes that "the relative share of public spending on social security tends to increase drastically only when economies reach the upper middle-income level where spending reaches about a quarter of government expenditures" and "(h)ardly any developing country has failed to combine growth with massive expansion of public sector expenditure on social security" (Von Braun, 1991:399).

possible. In the first place it can be argued that the South African development is contrary to the hypothesis of nationalization. In other words, in the South African case ideological or other factors worked against the supply and demand forces identified in Chapter 3. Therefore, the expected reassignment of functions from other intermediate groups to the state did not take place. Alternatively, it can be argued that South Africa is still at a stage of its economic development where it is impossible or not necessary to expand state provision as rapidly as normally takes place in industrializing economies. The following chapters look in more detail at the nature and development of social provision in South Africa after 1910 in order to address this issue further.

CHAPTER 6 HISTORICAL OVERVIEW OF THE GROWTH OF STATE PROVISION OF SOCIAL SECURITY IN SOUTH AFRICA AFTER 1910

6.1 Introduction and broad outline

It is not possible in this study to provide a detailed history of state intervention in the provision of social services between 1910 and 1990. Neither is it feasible to trace and weigh the forces which caused changing provision. Both endeavours would be too vast and require a more detailed knowledge of South African history than can be offered here. The objective of this chapter is more limited; it is to give a brief overview of the evolution and growth of certain aspects of state provision of social security in South Africa between 1910 and 1990. This overview will then be used to provide some generalizations about the nature of the process of changing provision in South Africa.

It is necessary to outline the situation in terms of the different social services at the time of Union, before subsequent developments are discussed. The broad interpretation of the historical process, which was hinted at by Bromberger and is in line with the hypothesis of nationalization, is that in the modernizing economy in the twentieth century it progressively became more necessary to extend fiscal welfare to all groups in order to ensure growth and stability. The provision of social security particularly since the 1970's, but also between 1910 and 1950 then reflects "the sustained growth of a common economic and social domain".¹ Notwithstanding this longer term trend, developments in the social sphere were not without contradictions.

The paradoxical development of social provision² can be traced in stages, each identified by subtle changes in policies affecting redistribution, based on an earlier analysis by Bromberger.³ The broad outline of the history⁴ is that between 1910 and 1948 there were

¹Bromberger (1982:196).

²See the quote from Pollak in Chapter 7.

³Bromberger (1980). It should be remembered that Bromberger dealt with all "policies affecting income distribution". The focus here is on the provision by the state of services providing social security and is thus much narrower.

increased adjustment and efforts to adjust social policy to the needs of a developing economy. This can be seen in the extension of public support structures, not only to traditionally vulnerable categories of the population (the old, etc.), but also to a limited extent to those who become vulnerable in a changing capitalist economy. These include the unemployed industrial labourers, the victims of occupational accidents and those with family responsibilities. Extension of expenditures focusing on promotion, rather than protection, such as education, health and housing, also took place and tended to become more evenly spread.

After 1943 there was a clear effort to limit the state's responsibility with regard to promotion and protection to the white population. It was attempted to force the burden of the care of the African population onto African households, especially those in the rural areas. This was coupled with an increased recourse to outdated methods of controlling and concealing poverty, such as restrictions on mobility and vagrancy. While it was endeavoured to limit the coverage to certain groups of the population there was also stagnation in terms of the risks covered. Even with regard to the "fiscally enfranchised", very limited extensions to the safety net took place.

The inappropriateness of a system of provision disregarding the interdependence between people in a modern economy soon, however, forced adjustments. Ever since the late 1960's, a reluctant move towards the reincorporation on an equal footing of all groups into the sphere of social policy, can be discerned. The hesitant incorporation of people into social policy increasingly came into conflict with the structures of apartheid, the implicit acceptance of collective interests being irreconcilable with the ideological denial of interdependence. This led to a persistent necessity to move away from important aspects of the apartheid economy, such as happened with the acceptance of black trade unions in the 1970's and the gradual acceptance of the failure of influx control and the homeland system during the 1980's. In the sphere of social provision this caused, for example, a realization of the need for rapid extension of educational opportunities and, later, it led to steps to equalize welfare payments (especially social pensions). Despite strong intentions to the contrary the state came to play an ever increasing role in the provision of social

⁴The rest of this introduction is a summary and interpretation of the information in the rest of this chapter.

services to all groups.

In spite of this trend very little materialized in social policy which took the risks and types of poverty catered for beyond those covered in the late 1940's. There are, however, some signs that there is currently a realization of the extent and nature of the need for social provision.

Two aspects can be noted about the identified historical shifts. Firstly it should be realized that the fiscal disenfranchisement after 1948 did not imply a more limited state role in the economy. On the contrary, in terms of government output as policies rather than goods and services, the 1950's saw a dramatic increase in state control of the economy.⁵ This increased role was concentrated not in the field of social provision, but in the control of individual decision making and of the production process. The importance of the state in guiding change was never doubted. Iliffe argued that "(a)s the urban crisis deepened [during the 1940's], the one point on which South Africans agreed was that its solution required central government intervention. For Afrikaner Nationalists this conviction pointed towards the Apartheid programme. For liberals it necessitated the extension to Africans of all welfare benefits hitherto confined to other races".⁶ That the "liberal alternative" reasserted itself without too much delay, however, owes less to ideas than to the objective requirements of a modern economy. The failure of the apartheid government to stem "demands" for increased social provision does indicate the strength of these forces and the pressures which can be expected in future.

Secondly, the belated and hesitant shift to an alternative to the apartheid fiscal paradigm⁷ was associated with significant rhetoric related to, and some action towards, privatization. This is also true for the social services.⁸ Coupled with this there is a widespread view among economists that "unproductive" expenditures cannot be afforded. In this view

⁵See, for example, the essays in Van der Horst and Reid (eds.) (1981).

⁶Iliffe (1987:140).

⁷See Van der Berg (1989a:197-198 and 1989b:17-18).

⁸Hendrie (1986:214-215) and various issues of South African Institute of Race Relations Yearbook.

increased social spending is only indicated if it provides investment in the future productivity of labour.⁹ On the basis of these views it can be said that a narrow economic approach, although less informed by racial overtones, still predominates in the social sphere.

6.2 State provision in 1910

In terms of income support measures the major activity of the state in 1910 was the provision of poor relief. Voluntary organisations presumably played the dominant role in welfare provision.¹⁰ With the formation of the Union in 1910 the responsibility for poor relief was assigned to the provinces, which implied a continuation of the situation before unification. Until the late 1920's this role of the provinces made them larger contributors to social welfare than the central government.¹¹ It is quite probable that poor relief was the most important state programme in the social welfare field until about 1928. Although the precise nature of involvement of the different provinces varied¹², the general nature of provision was described as follows:

" In all the Colonies at the time of Union ...distribution of poor relief was effected by two methods - generally throughout the rural areas and in all but some of the larger urban centres by the distribution through magistrates of small doles either in money or in kind, and in some of the larger centres by the subsidization of charitable societies whose operations were similar in character though less restricted as to the amount of cash grant and the variety of the supplies. In some urban centres the two methods were, and still are, in use side by side. Only foodstuffs or money to buy foodstuffs are ordinarily given, contribution towards rent or other needs being exceptional."¹³

After Union this system persisted without any major change. In the 1913/14 financial year

⁹See Nattrass and Roux (1991).

¹⁰Hendrie (1986:87).

¹¹Iliffe (1987:120).

¹²Iliffe (1987:120) and South Africa (1944a:62-63).

¹³South Africa (1937:5).

R94 670 was spent on poor relief¹⁴ compared to "total geographical income" of R265.8 million in 1912.¹⁵ The largest part of this expenditure was disbursed through magistrates (63 per cent in 1913/14), with the rest flowing to voluntary organizations to help finance their poor relief efforts.¹⁶ Pollak has remarked that at this stage "the concept of social welfare was limited and rigid - it was confined to relief of distress".¹⁷

With regard to education it was indicated in Chapter 4 that by 1910 the role of the state in White education, via the provinces which managed the education for the central government, was becoming more extensive. This was a result of the continuous widening of the age group subject to compulsory education and the acceptance by the state of the financial implications of this action.¹⁸ Pollak reported that at the time of unification, schooling was compulsory for White children up to the age of fourteen and that this education was free in all provinces, except the Cape.¹⁹ Expenditure by the provinces was subsidized by the Union government through a system of grants-in-aid. The amount of the subsidy was based on provincial expenditure of the previous year, while allocation of funds between races was left to the provinces.²⁰ While some state money did flow to the mission schools (which accommodated the majority of African school-going children) this seems not to have been the major source of their financing.²¹

The present division of labour between central government, the provinces and local authorities in the provision of health services had its origin with the formation of the Union. Environmental services became the responsibility of local authorities, with hospital services going to the provinces and the residual and coordinating responsibilities lying with the

¹⁴South Africa (1937:10).

¹⁵South Africa (1960:S-3).

¹⁶South Africa (1937:10).

¹⁷Pollak (1960:3).

¹⁸See Malherbe (1925) for an overview of developments during this period.

¹⁹Pollak (1960:2).

²⁰Hendrie (1986:92).

²¹See Section 5.2.5 above.

central government.²² Medical services to the indigent, such as the use of district surgeon services, were financed by the provinces out of their poor relief budgets. In some cases local authorities had to contribute to these costs.²³

In the field of housing and personal welfare services, state activity seems to have been insignificant at the time of Union. In spite of this, control over urban settlement through systems to isolate African townsmen in locations dates from before 1910. While the elaborateness of control differed, the responsibility for housing provision lay mostly with the individual.²⁴

6.3 1910 to 1933

This period can be seen as one during which there was significant innovation in the field of state provision of social security in South Africa in the sense that many new schemes, previously unknown in the country, were introduced. The process, if anything, was piecemeal and uncoordinated. In most instances Africans and Indians were excluded from benefits, and the unwillingness of white parliaments to use general government revenue in the financing of services to Africans became clear and found its way into legislative provisions. The end of the period is marked by the establishment - within the Department of Labour - of a Department of Social Welfare which inaugurated a period of more coordinated, ambitious and equalizing action in the provision of social security.²⁵

In the field of income support this period saw the introduction of a number of assistance schemes related to the workplace. After 1911 compensation for phthisis and silicosis was granted to African miners²⁶ and "compensation for injuries sustained at work" date from

²²Hendrie (1986:100).

²³South Africa (1937:6 and 11).

²⁴Iliffe (1986:115-116).

²⁵Iliffe (1987:121).

²⁶Iliffe (1987:141).

1914.²⁷ Rudimentary industry-based unemployment insurance, with the printing and newspaper industry in the forefront, originated in 1919.²⁸

An early and rare example of a categorical welfare benefit in the context of South African welfare policy was a maternity allowance paid in terms of labour legislation from 1918. The Factories Act of 1918, and later the Shops and Offices Act (Act no. 41 of 1939) and the Factories and Works Act (Act no. 22 of 1941), prohibited women in the applicable jobs from working for four weeks before confinement and for eight weeks thereafter. Maternity allowances, originally administered by the Department of Labour, then served as compensation against loss of earnings for these women for the compulsory twelve weeks.²⁹ No means test or contribution condition was enforced. The only precondition for receiving benefits was employment in the covered sector at the time of pregnancy. It was then a good example of a categorical payment aiming at income maintenance during a particular phase of the life-cycle. Although there are no references to racial discrimination in access, coverage was limited as a result of the exclusion of large groups of women workers such as clerical workers, farm workers and domestic workers so that this benefit was also selective (not universal). In 1932, 330 of these grants worth R1.50 per week for twelve weeks were awarded. In later periods coverage became wider.³⁰

Outside the workplace assistance also grew apace. In the field of child care and provision for poor families, a first system of cash grants date to this period. Initiatives in this area have a long history as was noted in earlier sections. In Chapter 4 it was shown that a system of grants to people taking custody of orphans and to widows first appeared in South Africa in the late 1600's as part of the Dutch Reformed Church's welfare network. The need to provide for destitute children also led to the first specialized private welfare institution in the Cape in the form of the privately funded Orphan House which was founded in 1817.

²⁷Meth and Piper (1984:3). No references are given on the introduction of workmen's compensation and the exact origin and method of introduction could not be traced. The Social Security Committee of 1944 remarked that by 1923 the schemes for miner's phthisis and workmen's compensation were already long standing.

²⁸Meth and Piper (1984:4).

²⁹South Africa (1944a:16 and 60)

³⁰Meth and Piper (1984:30).

Other early institutions, such as the Anglican's Zonnebloem College (1856-1857) and St George's Orphanage (1862), also focused on the care of deprived children. In the different colonies and republics before Union state activity in the provision of education to the poor was also found.³¹ At the time of Union organized intervention to provide for destitute children and children from poor families was thus nothing new.³²

Between 1905 and 1910 there seems to have been an upsurge of activity in the field of child welfare, purportedly caused in part by the publicising of high infant mortality levels (above 100 per 1000 live births according to one source) by the Cape Town Medical Officer of Health in 1906. The activity consisted of the introduction of child protection legislation in the different colonies, the founding of voluntary child welfare societies, presumably of a coordinating nature, and the provision by larger municipalities of preventative health care units.³³

In 1913 the Union Government introduced the Children's Protection Act which "formulated and consolidated the social measures to be applied for the protection and care of infants, neglected and maladjusted children". In terms of this act Children's Courts were established, Commissioners of Child Welfare appointed, among other things to oversee the care of children not living with their parents, and certain crimes against children were stipulated and penalties imposed.³⁴ While the act thus gave the powers to refer children to institutions and appropriate care, no provision was made for the financial implications of such referral. This was especially the case where it was found preferable to leave children in the care of their natural parents because neglect was seen as being the result of poverty only. In cases where such "out relief" was needed it had to depend on the work of private organizations or, in the case of severe deprivation, to be effected through the poor-relief channels.³⁵

³¹See Chapter 4, above.

³²See Chapter 4, above, and Iliffe (1987:100 and 102).

³³South Africa (1940:43).

³⁴South Africa (1940:44-45).

³⁵South Africa (1940:59).

An important next step was taken with the Child Protection Amendment Act of 1921 which authorised the payment of maintenance grants. These became payable "to mothers, stepmothers or grandmothers for the care and maintenance of a child in respect of whom an order committing him to their care has been made under the Act" and if the woman was a widow or if the father was unable to care for the child for reasons beyond his control. The system of children's allowances was originally administered by the Union Department of Education.³⁶

As in later years, very few Africans benefited from these grants. Children's allowances were only paid to African children in exceptional circumstances. No grants were made to rural Africans and other avenues, such as the repatriation of children to relatives in the rural areas or the provision of day-care services so that the mother could work, had to be exhausted before application could be lodged for a maintenance grant in respect of an urban African child.³⁷

Military pensions which consist of payments for disablement and to survivors as a result of service as a non-permanent member of the defence force date from 1919.³⁸ An important innovation in the sphere of social policy came with the Old Age Pensions Act of 1928 and the first payment of these non-contributory, means-tested pensions to White and Coloured pensioners in 1929. As is still the case, the pensions applied to men above the age of 65 and women above the age of 60. In 1929 the maximum pension paid to Whites was R5 per month and to Coloureds, R3.³⁹ Also in the field of social welfare there were moves to co-ordinate provision through the creation of the National Council for Child Welfare in 1924, and the National Council for the Blind and Deaf in 1929.⁴⁰ Pollak has referred to these changes in the field of social welfare as representing a movement "from pauper relief to public assis-

³⁶South Africa (1940:59).

³⁷South Africa (1944a:61).

³⁸South African Statistics (1990:6.14).

³⁹See Hendrie (1986:87).

⁴⁰Iliffe (1987:121).

tance".⁴¹ Associated with this was the decline of the relative importance of poor relief in welfare provision.

In the field of education, compulsory education became free in the Cape in 1920. The Union Government took over the function of financing and allocating funds to African education in 1922. In 1925 the method initiated in 1922, to earmark a proportion of African direct taxes for educational spending for Africans, was extended. Henceforth a percentage of the poll tax on Africans plus a fixed amount from general revenue would be allocated to African education. This resulted in an effective link of expenditure on African education to the ability of Africans to pay taxes.⁴²

The Public Health Act of 1919 established a separate government department of Public Health. Service provision stayed in the hands of the different levels of government, except for local authorities getting responsibility for dealing with infectious diseases with assistance from the Union government through subsidies.⁴³ The fragmented nature of provision and control also continued in spite of recommendations to the opposite effect by the government appointed Vos Committee.⁴⁴ An analysis of statistics about hospital services in 1928 shows that there were 17 918 hospital beds available which were used by 325 898 patients. Although housing a smaller number of beds than the "public" hospitals (33 per cent of the total versus 42 per cent), "mine and industrial hospitals" accommodated most patients (55 per cent against the 31 per cent of public hospitals). The majority of patients in these "mine and industrial hospitals" were African. Private nursing homes contained 12 per cent of available beds and catered for nearly ten per cent of the total patients.⁴⁵

⁴¹Pollak (1960:3).

⁴²Hendrie (1986:93).

⁴³Hendrie (1986:100).

⁴⁴Hendrie (1986:100).

⁴⁵Calculated from Union Statistics for Fifty Years [South Africa, Bureau of Census and Statistics (1960:D4-D8)]. It is not clear whether the mine and industrial hospitals were state funded and run, or whether they were operated by employers, especially the mines, with subsidies by the state. In later years the decline in importance of these mining and industrial hospitals was to an extent balanced by the rise of mission hospitals which were subsidized by the state. See the above statistics and Pollak (1960:4).

Part of the cause of the influenza epidemic of 1919, which killed a large number of people, was attributed to the conditions in slums and African locations.⁴⁶ This prompted the appointment of a Housing Committee in 1919 and the passing of the Housing Act in 1920. This Act made provision for the state to assist the process of housing provision through the advancement of loans to local authorities if approached in this respect. A more radical proposal for complete state control of building activity in order to give priority to housing was not acted on. It was also decided not to provide sub-economic loans as such loans entail, it was argued, a subsidy to employees. The act was amended in 1930 to provide for loans at sub-economic interest rates but Africans were initially excluded from these provisions.

The Natives (Urban Areas) Act of 1923 also had important implications for the housing of and the provision of services to Africans. In the first place it prohibited freehold tenure for Africans outside the reserves and secondly, it made provision for local authority participation, and, if so chosen, monopoly in the manufacturing of beer. Although expenditure on African areas was not limited to income from the area, legislation enforced the separate administration and approval of expenditures in these areas. It would seem as if essential services to Africans were financed from revenues out of beer brewing profits and other charges on Africans. Pollak has described this principle, of making the provision to Africans of social services self-financing, as "one of our South African paradoxes - the economically most underprivileged ... largely pay for their own services".⁴⁷ This principle also held sway in education.

The reasons for the exclusion and differential treatment of Africans are complex. The motivation for this differential treatment of Africans with reference to maintenance grants was explained as follows: "Having regard to the fact that under Native law it is the natural duty of the head of the kraal or guardian-at-law to support any minor belonging to his kraal or under his care, and that the granting of maintenance by the state will probably lead to an evasion of the responsibility ... grants will not be made in the case of Native children residing in the rural areas." Furthermore, "it is felt that the payment of cash allowances to Natives residing in the towns will be an incentive to Native women to flock to the urban areas and

⁴⁶These two paragraphs on housing rely on Morris (1931:23-30) and Hendrie (1936:109-110).

⁴⁷Pollak (1960:4). See also Morris (1981:26).

thus aggravate a position that has already become acute".⁴⁸ This reasoning is significant as it was used as motivation for the exclusion of Africans, and especially rural Africans, from a large number of welfare benefits. In the case of social pensions the Social Security Committee of 1944 explained the reasoning behind the initial exclusion of Africans as follow: "Rural natives were excluded from old-age pensions mainly on the assumption that Native custom makes provision for maintaining dependent persons. Urban Natives were excluded in consequence, regardless of their needs, owing 'to the difficulty of applying any statutory distinction between them and other Natives'"⁴⁹

From official documents such as those quoted above it would seem as if by the 1930's officials were starting to realize that the above motivation for exclusion of Africans, if ever valid⁵⁰, was becoming groundless⁵¹. The 1944 committee argued that the exclusion of people with rural links from welfare provisions on the grounds of the possibility of support from the rural areas was "based on a misconception of the living standards of Reserve Natives and of the ability of the family group [in the rural area] or in town to care, unassisted, for the children of absent relatives or for old parents or invalids".⁵² An earlier commission also realized the impact of a modernizing economy on communal support structures. It argued that "the spirit of family and clan responsibilities which is ingrained in tribal custom has hitherto minimized appeals for provincial or national aid for Natives living under the tribal system save in times of general distress, but it is evident that the ability if not willingness of the kraal to maintain its helpless members is decreasing and that provision for these will have to be made on an increasing scale by the community in general. The number of detribalised Natives living in and around the large centres is increasing, and for

⁴⁸South Africa (1944a:61).

⁴⁹South Africa (1944a:20). The inside quote is from an earlier commission report.

⁵⁰The important theme of this study that the state takes over welfare services from other organizations under certain circumstances and the motivation behind it could be used to argue the validity of the view under certain conditions.

⁵¹Bromberger refers to "an intense awareness of problems including malnutrition, lack of primary health care, and rural deprivation among some policy-makers in the 1940's" (1982:186).

⁵²South Africa (1944a:20). Further on they also argue for the extension of benefits to farm workers.

these some enlarged provision will undoubtedly have to be made".⁵³

This awareness of the inadequacy of services to Africans⁵⁴ among civil servants and advisors to the government might have been influential in leading to a shift in perspective on welfare services to Africans. Another important influence in these times was the publication of the report of the Carnegie Commission in 1932. The report not only drew attention to the existence of widespread poverty, but also to the flaws of the contemporary system of poor relief.⁵⁵

An important criticism of the provincial system of poor relief by especially the Carnegie Commission, was that it failed to modernize itself, and as a result focused only on relief without giving attention to the important problem of rehabilitation. The system was seen as harmful as it led, it was believed, to pauperization through creating, with other state measures "a very marked tendency to dependence, especially on the state".⁵⁶ The preponderance of general relief work by voluntary organizations, instead of specialization into a specific area of care, was viewed as another outflow of this "unscientific" approach towards relief.⁵⁷ Lastly it was felt that the system of provision was unnecessarily complex and that a lack of coordination of welfare activity led to duplication, an absence of uniform standards and a failure to exchange relevant information. As a result it was recommended by the Carnegie Commission that a body falling under one of the existing government departments be created to increase coordination, cooperation, research and the

⁵³South Africa (1937:15-16). Other official documents echoed these ideas. See the references in South Africa (1944a:20)

⁵⁴See also Iliffe (1987:121) on the inadequacy of welfare services for Africans.

⁵⁵In South Africa (1940:2) reference is made to the "Carnegie Commission's undoubted influence on public opinion".

⁵⁶Grosskopf, et al. (1932:xxxi). A large number of state activities were blamed for this tendency towards dependence. A number of them were "gratis provision for the board and education of the children, sometimes even of books and clothes; child welfare; providing the unemployed with work; provision of food and housing; provision of land and stock on the easiest terms; gratis care of the sick and aged; relief of distress due to catastrophic events (and) advances on farm produce".

⁵⁷Iliffe (1987:121).

dissemination of information.⁵⁸

The state responded to this recommendation by establishing a Department of Social Welfare within the Department of Labour in 1933. This step can be seen as the inauguration of a decade and a half of rapid expansion in the coverage of state social services. The next period is then a good example of a phase of increasing "nationalization" of welfare services.

6.4 1934 to 1948

This period has been termed a phase of "limited progress towards incorporation and equality", which showed "some evidence of government acceptance of the need for the provision of increased welfare for all citizens".⁵⁹ The "progressiveness" of this period can be seen in a number of developments. Not only was there an increasing role (administration and regulation) for the central government in the provision of social security but also an increased coverage of the risks associated with a modern economy, as well as an extension of the benefits of previously instituted schemes to excluded groups. In some of the areas of provision there was also a reduction in the extent of the inequality of benefits.

In 1940 provincial poor relief responsibilities, except for Natal, were transferred to the Department of Social Welfare. This department had become autonomous in 1937⁶⁰. The Department immediately set out to rationalize and co-ordinate the system of poor relief. Although the previous channels of distribution stayed largely intact, organizations were urged

⁵⁸Grosskopf, et. al. (1932:xxxiii). For a summary of the problematic aspects of the poor relief system see South Africa (1937:14-15). One commentator felt that the founding of the Department reflected more than a response to justified criticism and can be laid at the door of the Great Depression. He argued that "(t)he engulfment of large numbers of industrious and thrifty Union citizens, especially farmers, by the backwash of the world depression badly jarred the then current and complacent conception that the attainment of success was entirely an individual matter and failure a form of personal dishonour". (South Africa, 1940:2).

⁵⁹Bromberger (1981:172).

⁶⁰South Africa (1944a:2-3). The rest of this paragraph is based on South Africa (1944a:63) and Iliffe (1987:121-122).

to specialize, to prevent overlapping (through the use of central registers) and to give a more important role to rehabilitative work. The investigation of all applications for relief was instituted and various principles had to be applied in the allocation of relief. Racially differentiated "ration scales" (minimum needs or standard rations) were drawn up by the department and the objective of assistance was to give the indigent command over this "minimum need' pauper ration". Other principles included the almost exclusive reliance on benefits in kind, essentially food rations, the expectation of a return service and the necessity to register with a labour bureau in order to qualify for benefits. Poor relief agents had to make sustained efforts to get relatives to fulfil their duties with regard to their kin. It was also specifically stated that "(i)n no case (was) government relief funds to (be) used to supplement low wages".⁶¹ "Additional poor relief", in the form of basic necessities other than food (eg. fuel, medical appliances, etc.) as well as, in exceptional circumstances, rent allowances, could be provided. Evidence for one large town indicates that the changing administration of poor relief led to a severe reduction (about 60 per cent) in the number of people receiving assistance under this heading.⁶²

Budgeting for poor relief, after 1940, was on the basis of submissions of annual estimates of their need by distributing agencies to the Department of Social Welfare. These estimates had to be based on an assessment of the degree of indigence of applicants according to the criteria laid down by the department. On the grounds of these the department then made allocations to the different bodies.⁶³

Two trends with regard to poor relief can be identified. One is the diminishing role of poor relief relative to other systems of state provision. From being the major system of social security after Union, poor relief expenditure constituted only 10 per cent of government expenditure on social insurance and social assistance around 1943.⁶⁴ This relative decline was not the result of a decline in the amount spent on poor relief but the result of the rapid increase in other forms of state assistance. Expenditure on poor relief grew by an average

⁶¹South Africa (1944a:63).

⁶²Iiffe (1987:122).

⁶³South Africa (1944a:63).

⁶⁴South Africa (1944a:p.15, Table 3).

annual rate of 7.7 percent from R91 140 in 1909/10 to R501 194 in 1937/38.⁶⁵

Furthermore, there was an increased role for government as well as the centralization of decision making in the provision of relief. The relative importance of voluntary organizations declined as a result of the growing role of the state in the field of relief and the expansion of other methods of income support. In addition, as the Social Security Committee of 1944 concluded on the basis of a survey of 81 welfare societies, voluntary organizations were at that stage more dependent on state subsidies than on private funds.⁶⁶

Alongside the streamlining of poor relief, state assistance for a large number of additional contingencies was also introduced, implying a wider spread of the safety net. In 1936 means-tested pensions for blind Coloured and White people above the age of 19 were instituted⁶⁷, followed by payments to white physically disabled people in 1937 and war veterans' pensions in 1941.⁶⁸ During the 1940's a number of measures followed which to some extent implied an awareness by the authorities of family poverty and poverty among working people.

In 1941 "cost-of-living allowances" were instituted to protect social pensioners and employees against the ravages of war-time inflation.⁶⁹ According to Bromberger these were progressive, leading to a reduction of wage differentials.⁷⁰ A school feeding scheme covering all school children was instituted in 1943, partly as a result of the contemporary

⁶⁵South Africa (1937:10-11). The figures represent nominal values. Inflation, using the consumer price index (South Africa, Central Statistical Services (1990a)), averaged just under 1 percent per year over the period.

⁶⁶South Africa (1944a:64).

⁶⁷South Africa (1944a:57).

⁶⁸Hendrie (1986:87) and South Africa (1944a:56).

⁶⁹South Africa (1944a:15 and 90). Allowances for pensioners were paid by the state while those for employees had to be paid by employers. Miners were excluded from these allowances.(Bromberger, 1982:174)

⁷⁰Bromberger (1982:173 and 174).

emphasis on preventative health care⁷¹ but also motivated on the grounds that it would promote "national well-being and per capita productivity" and in order "to prevent continued human deterioration".⁷² Family allowances became payable to large low income White, Coloured and Indian families in 1947.⁷³

Coverage was not only extended in terms of contingencies covered, as shown above, but were also made less selective in terms of coverage of the population. The coverage of both the employment-based insurance systems, namely workmen's compensation and unemployment insurance, was extended. In 1934, in terms of the Workmen's Compensation Act, benefits became payable for work injuries outside the mining industry.⁷⁴ A limited unemployment scheme, which none the less brought greater coverage than before, was legislated for in 1937. Certain sectors, namely agriculture, domestic workers and miners, were excluded as well as African workers earning less than a specific amount (R156 per year in 1937).⁷⁵ The Unemployment Insurance Act of 1947 led to a further expansion of coverage by removing the minimum income restriction, although domestic, agricultural and mine workers were still not included.

Social assistance measures were also extended to cover, in most cases, all the population groups. The 1921 Children's Act was replaced by the Children's Act of 1937 which made maintenance grants payable under wider conditions and which left more room for administrative discretion and rule-making. Grants could now be paid for "the maintenance of any child by any person in whose custody the child has been placed under this Act or by its parent or guardian". With the establishment of the Department of Social Welfare in 1937 responsibility for the programme was transferred from the Education Department to the new department.⁷⁶ In 1942 the categories qualifying for assistance were extended fur-

⁷¹Bromberger (1982:174).

⁷²South Africa (1944b:109).

⁷³Hendrie (1986:90).

⁷⁴Iliffe (1986:141).

⁷⁵Meth and Piper (1984:7).

⁷⁶South Africa (1940:59-60).

ther.⁷⁷ In 1942 the main beneficiaries of maintenance grants were still Whites with Africans still receiving such grants only in exceptional cases. At the end of 1942, 13 276 White children, 5 816 Coloured, 3 034 Indian and only 190 African children received maintenance grants. In spite of the limited nature of this assistance for Africans by the Department of Welfare this represented a step forward. As Iliffe explains, "it broke the South African tradition that services for Africans must be provided separately and through the Native Affairs Department".⁷⁸

In 1944 pensions for the blind and aged were legislatively extended to Africans and Indians although "non-statutory payments" had been made to the Indian "aged, infirm and blind" since 1935 and similarly to the African blind and war veterans.⁷⁹ Social pensions as a result of disability were extended to all groups in 1946 in term of the Disability Grants Act. In 1947/48 27 264 Africans received disability grants, 21 864 invalidity grants and 196 846 old age pensions.⁸⁰

In spite of increased inclusion of all groups in the welfare system and the coverage of more risks, benefits and means tests were still differentiated according to race and geographical location. Benefits were also extremely low. In the case of all social pensions the means test was stricter and benefits lower for the other races than for Whites. With regard to pensions and maintenance grants, rural inhabitants received less than inhabitants of towns who in turn received less than people in the metropolitan areas.⁸¹ In 1947 the maximum monthly social pension plus free income was R12 for Whites, R6.50 for Coloureds and Indians and R4 for Africans implying a ratio of 100:54:33.⁸² The maximum monthly children's grant payable in 1944 was R5.00 for Whites, R1.70 for Coloureds and Indians and R1.25 for Africans.⁸³

⁷⁷South Africa (1944a:61)

⁷⁸Iliffe (1987:141).

⁷⁹South Africa (1944a:56 and 57).

⁸⁰Iliffe (1987:141).

⁸¹Pollak (1981:154) and South Africa (1944a:61).

⁸²Pollak (1981:157).

⁸³South Africa (1944a:61).

As Pollak remarked, inclusion of all groups was "always based on differentiation related to conventional variation in living standards".⁸⁴

The Social Security Committee of 1944 found the level of benefits to be inadequate. As evidence of this deficiency they referred to the fact that voluntary welfare societies were obliged to supplement state grants and that a large number of applicants for municipal relief were found to be people who already received state pensions.⁸⁵

Although there was thus not equality of benefits for all groups, constraints on expenditure on African social services were made less severe, among other things by moving away from the self-balancing principle in some spheres. From 1934, housing for Africans could qualify for sub-economic interest rates "under certain conditions relating to slum clearance". Another change came in 1944, after the establishment of the National Housing and Planning Commission in the place of the Central Housing Board, in the acceptance of the "principle of payment according to means". This acceptance was implicit in the fact that rents were allowed to vary in line with the income of tenants.⁸⁶ Between 1935 and 1942, 54 400 units were completed under the sub-economic schemes with another 69 600 units either under construction or approved. About sixteen per cent of these were built for occupation by Whites.⁸⁷ With regard to administration of African areas, some evidence indicates that the principle of self-financing, through especially municipal profits on beer, became entrenched.⁸⁸

This loosening of tax constraints on spending on Africans also took place with regard to expenditure on African education. Throughout the early 1940's an increasing proportion of African taxes and increased funds from general revenue were channelled to African education until the link between African taxable capacity and expenditure on African education was removed in 1945. There was also a movement away from the racial base in

⁸⁴Quoted by Bromberger (1982:173).

⁸⁵South Africa (1944a:26).

⁸⁶Hendrie (1986:110).

⁸⁷South Africa (1944a:65).

⁸⁸Morris (1981:34).

the calculation of the provincial education subsidies.⁸⁹ As in all the other fields of social provision, inequalities in the level of benefits and per capita expenditures remained.

It is also interesting to note that although significant expansion of social security provision took place, the state did not go nearly as far as its advisers wished for. The National Health Services Commission of 1944 proposed a centralized national health service financed through a health tax levied on all income groups. According to the Commission this would have been the only way to rectify the then existing "disjointed and haphazard, provincial and parochial" health service and to ensure coverage of the "underprivileged sections of the community". It would also have helped to give preventative health its rightful place.⁹⁰ Similarly the Social Security Committee of 1944 proposed a comprehensive social security scheme, financed by contributions and initially means-tested, covering all significant contingencies⁹¹. They foresaw it applying to all urbanised people and farm workers irrespective of race. Non-urbanised Africans would be able to join a second scheme with lower benefits and contributions. The suggested benefits would still have been differentiated in order "to follow the expenditure patterns of European and non-European families".⁹² The following period not only saw a rejection of the spirit and principles of these proposals but instead an attack on many of the schemes instituted in the previous decade as well as increased differentiation in the level of benefits and fragmentation of service provision.

6.5 1948 to 1961

Bromberger classified the period 1948-61 as "an era of retrenchment" which was "characterized by a direct and purposeful assault on aspects of the new fragile welfare

⁸⁹Bromberger (1982:173-174) and Hendrie (1986:94)

⁹⁰South Africa (1944b). The quotations are from page 2 of the summary of the report.

⁹¹They envisaged a scheme paying old-age pensions, blindness and invalidity pensions, mothers' and widows' benefits, dependents' allowances, family allowances, unemployment benefits, sick pay, maternity benefits (to compensate for lost wages), recovery benefits, maternity grants, funeral grants and social assistance or what they called a "residual benefit". See South Africa (1944a:32).

⁹²South Africa (1944a:19-34), the quote is from p. 26.

construction that had begun to emerge during the previous decade".⁹³ This retrenchment could, in the sphere of social assistance and insurance, be seen in the elimination of some types of assistance schemes, the contraction of the coverage of other schemes and increasing inequalities in benefit levels. Furthermore, the method of constraining expenditure on African social services through adhering to the self-balancing/financing principle again came into use.

Two schemes were totally abolished during this period, namely school feeding and cost of living allowances. School feeding was removed in stepwise fashion with additional registration of African schools prohibited in 1948, rural African children being excluded in 1949 and the size of the grant for African children being systematically reduced. By 1960 this scheme seems to have been something of the past.⁹⁴ In 1948 the progressive nature of the cost of living allowances was removed, with all allowances being "frozen".⁹⁵

The coverage of two older schemes was reduced during this period. In the first place Indians were excluded from family allowances in December 1948. The suspension of the expanded Unemployment Insurance Act in 1947 was followed in 1949 by the Unemployment Insurance Amendment Act. This amendment, most importantly, provided for the reimposition of the minimum income requirement in order to qualify for benefits. It is further probable that eligibility for benefits was further reduced through widening the definition of suitable employment for the lower categories of workers. The availability of such jobs, which were then deemed as suitable for unemployed workers of certain categories, precluded people from claiming benefits.⁹⁶ This minimum income level, which was set well above the average African wage and was kept there by regular adjustments, led to the benefits to Africans becoming negligible by the end of 1950.⁹⁷

With regard to social pensions and grants, increasing discrimination in means tests and level

⁹³Bromberger (1982:175).

⁹⁴Bromberger (1982:177).

⁹⁵Bromberger (1982:178).

⁹⁶Meth and Piper (1984:18-22).

⁹⁷Meth and Piper (1984:23-25).

of benefits took place. In 1944 the monthly free income used for the calculation of social pensions for Coloureds and Indians was equal to 60 per cent of the White level of R5.00 with that of Africans being 40 per cent of that of Whites. By 1966 this ratio had been reduced to 50 per cent for Coloureds and Indians and 12.5 per cent for Africans. While in 1947 the maximum social pension payable per month to Coloureds and Indians came to 50 per cent of that of Whites (25 per cent for Africans), it amounted to only 40 per cent for Coloureds, 35.9 per cent for Indians and 14.9 per cent for Africans in 1960.⁹⁸ Against the average annual old age pension paid to Whites in 1962 of R267.19, Coloureds, Indians and Africans were paid an average annual amount of R118.01, R102.24 and R25.57 respectively.⁹⁹ Other social pensions also reflected this relative deterioration of the position of the non-white groups.

A reversion to the "self-balancing principle"¹⁰⁰ in education and administration of African areas also resulted in a widening of the disparities in per capita expenditure on the different groups and a reduction of the extent of redistribution from general revenue. This process was effected through further fragmentation of service provision on a racial basis and an insistence on the elimination, or rather minimization, of cross-subsidization in the financing of these segregated services.

In the educational field, the Bantu Education Act of 1953 introduced the fragmentation of schooling on racial lines and increased government control over Black education. Missionary schools subsidized by the state were required to register and to accept greater state control over all aspects of educational provision such as "educational appointments, syllabi, examinations and school buildings" or to forgo subsidies.¹⁰¹ In this way most of the missionary schools were forced to submit to the state. This led to a reduction in the

⁹⁸All figures from Pollak (1981:156 and 158).

⁹⁹Calculated from South African Statistics 1990.

¹⁰⁰This is what Van der Berg (1989a:197) calls the "apartheid fiscal paradigm", which "starts from the premise that every group should be regarded as a separate political and economic unit". In terms of this mind-set "White" taxes must not be spent on "Black" services.

¹⁰¹Samuel (1990:18).

number of state-aided mission schools from 5 000 in 1953 to 509 by 1965.¹⁰² State control was now exercised through a section of the Department of Bantu Affairs, segregating it from the control of education of the other races by the provinces.¹⁰³ Expenditure on African education was after 1955 again to depend mainly on taxes paid by Africans. This was effected through the creation of a "Bantu Education Account" into which a fixed amount from general revenue, some minor amounts and 30 per cent of general tax by Africans would be paid.¹⁰⁴ These different steps resulted in a strong decline in per capita expenditure on African education with a widening disparity between racial per capita expenditure levels. After rising in nominal terms from R7.78 in 1945 to R17.08 in 1953/54, per capita expenditure on African children decreased to R11.56 in 1962/63.¹⁰⁵ Expenditure per White and Coloured pupil increased between 1953 and 1960 from R128 to R145, and from R40 to R59, respectively.¹⁰⁶

In the provision of welfare services there was increased effort after 1948 to remove dependent Africans (the old, etc.) to the homelands and to transfer welfare institutions and pension provisions to homelands. There were also some efforts to reorganize welfare provision along ethnic and tribal lines. The lack of effective administration and financial constraints on homeland governments led to de facto pension coverage far below what legal entitlement would indicate.¹⁰⁷ The process of fragmentation of welfare provision gained further momentum after control of Coloured welfare was transferred to the Department of Coloured Affairs in 1958 and responsibility for Africans to the Native Affairs Department in 1960.¹⁰⁸ The involvement of other population groups in the provision of African welfare was also declared as "contrary to policy" in 1957, necessitating expensive and inefficient

¹⁰²Samuel (1990:18).

¹⁰³Hendrie (1986:95).

¹⁰⁴Bromberger (1982:177).

¹⁰⁵Bromberger (1982:177),

¹⁰⁶Auerbach and Welsh (1981:79). Note that the figures for 1960 refer to the Cape Province only.

¹⁰⁷Iliffe (1987:276).

¹⁰⁸Iliffe (1987:264). Pollak (1960:19).

duplication of voluntary and state welfare structures.¹⁰⁹

Developments in the field of housing and administration were complex, with some commentators seeing progress over the period.¹¹⁰ The main trend, however, fitted in with those in other areas of social provision and resulted in increased fragmentation and segregation and efforts to shift the cost of social services on to Africans themselves. Fragmentation took place through the establishment of a separate Bantu Housing Board in 1957. A large number of initiatives aimed at reducing the cost, as well as the cost to the state, of housing provision.¹¹¹ Under the first heading site and service schemes were allowed and loans to African owner-builders approved. Levies on employers of African workers, the reduction of the number of sub-economic loans to Africans and increased stringency in the application of income limits to qualify for sub-economic rents served to limit the expenditure of the state on African housing. Part of the effect of these steps can be seen in the reduction of the value of approved sub-economic housing to Africans from R4 323 456 in 1950/51 to R223 324 in 1956/57.¹¹²

More positive action in the field of social welfare included the extension of coverage under the Unemployment Insurance Fund to sickness (1952), maternity (1954) and to cover survivors of contributors (1957).¹¹³ The Pension Fund Act of 1956 led to increased state monitoring and control of retirement funds.

6.6 1961 to 1971

Bromberger has described this period, with reference to distributionally relevant policies, as "showing signs of a thaw". The period reveals the waning of determined efforts to reduce expenditures on Black social services, possibly illustrating the realization of the need for cross-subsidization between income groups and across the racial divide. Such changed

¹⁰⁹Pollak (1960:20).

¹¹⁰Pollak (1960:21).

¹¹¹See Morris (1981:45-49), Hendrie (1986:109-110).

¹¹²Morris (1981:46).

¹¹³Meth and Piper (3,25 and 27).

thinking on expenditure is reflected in increased levels of absolute and per capita expenditure on Africans after 1962/63. From the early 1960's social pension differentials relative to White levels also started to decline; at first only for Coloureds and Indians, and a bit later for Africans.¹¹⁴

Although there was a reluctant acknowledgement of the necessity of social spending on all groups, this took place without deliverance from the idea that separateness and equality can co-exist. The belief that separateness could still be attained and combined with economic growth, found expression in the field of social services in the further fragmentation of educational provision¹¹⁵ and the prohibition of multi-racial welfare organizations in 1966¹¹⁶. In 1968 home-ownership rights for Africans in the "white" areas were withdrawn and further restrictions placed on the provision of family housing.¹¹⁷ The widespread takeover of the administration of African areas by the Administration Boards also implied regression. It implied an end to all direct and indirect subsidies within municipal areas and thus reflected a continued belief in the ideal of financial self-sufficiency of the different groups.¹¹⁸

6.7 1972 to 1990

In 1982 Bromberger characterized the period 1972 to 1980 as demonstrating "a trend towards re-incorporation and reduced inequality" in terms of policies affecting income

¹¹⁴Bromberger (1982:183).

¹¹⁵Responsibility for education for the respective population groups passed to the Department of Coloured Affairs (1963) and the Department of Indian Affairs (1965). The Transkei also accepted responsibility for education in 1963. (Hendrie, 1986:95).

¹¹⁶Iliffe (1987:264).

¹¹⁷Hendrie (1986:113).

¹¹⁸Morris (1981:148). Another step in the direction of "self-balancing" was the subsidization of black transport financed by levies on employers of black labour. Bromberger (1982:148) describes this as a progressive adjustment. Such an interpretation is difficult to support. The tax on employers of blacks results in a premium or tax on the employment of black labour in order to finance one of the direct implications of apartheid, namely high transport costs. Intricate analyses of incidence would have to be made before such a tax and the resulting subsidization of transport can be described as "increasing the scale of benefits to blacks".

distribution.¹¹⁹ This trend also applied to social policy and continued after 1980. Changes in social provision were, however, still ambivalent in nature. Although there was a realization of the requirements in terms of social services, the mechanisms of provision still reflected the ideas of previous periods.

The main components of the progressive trend identified by Bromberger, which led to a partial reversal of the regressive spending policies of the two preceding periods, were:

- increased real and per capita expenditure on social services and infrastructure for blacks;
- a reduction of racial differentials in social pension benefits; and
- an increased awareness of poverty and the need for corrective policies.¹²⁰

Increased expenditure was clearly visible in the field of African education and with regard to investments in infrastructure in Black townships and the homelands.¹²¹ The Bantu Education Account Abolition Act of 1972 detached educational expenditure on Africans from their taxable capacity. Henceforth, African education would be a charge against general government revenue.¹²² The loosening of this restraint was partially responsible for a substantial increase in educational expenditures on Africans. Further fragmentation of service provision, however, continued through the devolution of powers to the homeland governments.

Pillay's figures indicate an increase in per African pupil expenditure from R25.31 per annum in 1971/72 to R476.95 in 1986/87, implying an average annual growth rate about 9 percentage points above the average annual increase in the consumer price index. This nineteen fold increase can be compared with a fivefold increase in White per capita expenditure, resulting in African per capita expenditure increasing from 5.5 per cent of the White level in 1971/72 to 19 per cent in 1986/87. The same narrowing took place, although from

¹¹⁹Bromberger (1982:185).

¹²⁰Bromberger (1982:185-187).

¹²¹Bromberger (1982:185-186).

¹²²Hendrie (1986:97).

more substantial initial levels and not that rapidly, in the case of Coloureds and Indians.¹²³

The narrowing of racial transfer payment differentials was also significant. The maximum social pensions payable increased from R38 (Whites), R 16.50 (Coloureds and Indians) and R5.00 (Africans) in 1970¹²⁴ to R304.00, R263.00 and R225, respectively, in March 1991.¹²⁵ The percentage of white levels thus changed from 43 percent for Coloureds and Indians and 13 per cent for Blacks to 86 per cent and 74 per cent respectively.¹²⁶

The changing ideas behind these trends have been described as reflecting a (reluctant) acceptance of a new fiscal paradigm in the place of the previous "apartheid fiscal paradigm".¹²⁷ This new approach shows greater recognition of the necessity of providing social services not on the grounds of the ability to pay of different groups but on the grounds of the need of individuals and, perhaps more importantly, the requirements of the economy.

In terms of expenditure objectives the acceptance of the need for greater access of all to social services was, and is, widely interpreted as implying an imperative to equalize racial per capita expenditure in the provision of social services.

Van der Berg argued that "[o]nce it was recognized that fiscal apartheid cannot be legitimately retained in an integrated economy and society, the implication was that

¹²³Pillay (1989:31, Table 1). His figures are based on those of the South African Institute for Race Relations and exclude the homelands. Van der Berg's estimates (1989(b):20) of per pupil expenditure for 1986/87, including homeland expenditure, are as follows (percentage of White expenditure in brackets): White, R2746 (100); Coloured, R892 (32); Indians, R1 386 (50) and Africans, R367 (13).

¹²⁴Pollak (1981:157).

¹²⁵Hansard (20 March 1991:col. 3308).

¹²⁶Average annual pensions actually paid also show reduced discrimination. The seemingly positive trend is, however, affected by the fact that means tests are probably not adjusted as rapidly. The equalization of less prominent benefits also seem to be done with less urgency. In 1987 the average annual maintenance grant awarded to Africans was still only 17 per cent of the average amount paid to Whites. (Calculated from South African Statistics 1992)

¹²⁷Van der Berg (1989a:198).

horizontal fiscal justice across race boundaries was required".¹²⁸ The Human Sciences Research Council (De Lange) investigation into the provision of education, for example, set "equal opportunities for education" as a first principle. This they interpreted as meaning "equal access to educational facilities of comparable standard". They further argued that "from the viewpoint of financing, [this] must imply some concept of parity in the level of financing as between different individuals".¹²⁹ This interpretation was followed in 1986 with a ten year plan, announced by the Minister of National Education, aimed at "equal funding levels for the various education departments".¹³⁰

More recently the Minister of Health reportedly said that "differences in the health status of the various population groups could be addressed only by way of an equitable division of funds". This was seen as necessitating financing of primary health care for regions on the grounds only of population size and health status.¹³¹

Together with these changing expenditures and objectives of social policy, Bromberger also noted an increased awareness of poverty and related problems among policy makers as a characteristic of this period. The report of the Theron Commission on Coloured Affairs in 1976 is viewed by him as a first clear sign of this realisation of the problem of poverty.¹³² The appointment in the early 1990's of a number of committees and commissions with poverty-related agendas and the focus on preventative health care are signs that this awareness has not subsided. Examples of poverty-related research initiated by the state are the appointment in early 1991 of a "Task Force on Poverty" and the earlier Commission of

¹²⁸Van der Berg (1989c:9).

¹²⁹Human Sciences Research Council (1981:7).

¹³⁰Committee of Heads of Education Departments (1991:6).

¹³¹South African Institute of Race Relations (1990:389). This explicit acceptance of need as a determinant of amount to be spent on an individual shows acceptance of substantive equality (or equality of outcome, which is health status in this case) and not mere formal equality (for example equality of inputs, equal per capita spending). Van der Berg (1991b:78) distinguishes in this regard between an acceptance of "horizontal fiscal justice" (substantive equality, that is taking account of the greater need of the poor) and an acceptance of "parity" (equal expenditure levels).

¹³²Bromberger (1982:186).

Investigation into a Food and Nutrition Strategy for Southern Africa.¹³³

It is also clear that the changing political situation, especially the growing power of the disenfranchised, is making it impossible for the state to ignore the impact of policies on the poor. The recent ability of pressure groups to obtain concessions as a result of the impact of the value-added tax on the poor can serve as an example.

As was the case in the previous period (1962-71), the concern with "equality" in social services did not imply an immediate abandonment of the ideal of separateness.¹³⁴ In spite of the acceptance by the 1980's of the permanence of urban Africans and the widespread appreciation of the failure of homeland policy, separate fiscal structures and service delivery systems were still being implemented. The most important example of this was the change to the tri-cameral parliamentary system and the continued dedication to the fiscal precept of "own" and "general" affairs of different race groups.¹³⁵ The contradictions of an acceptance of interdependence coupled with a refusal to abandon old ideals have thus not been resolved. Only in the 1990's has the need for unified provision become accepted to an extent. In some fields this has led to recent steps towards the reintegration of service delivery. Although this reintegration is not taking place at the level of administration, it is at least coming about in the admission and acceptance of "clients".¹³⁶

A further development in this period was widely interpreted as conflicting with the real progressive changes in racial differentials and social expenditures. Particularly since the

¹³³Hansard (20 March 1991:3305).

¹³⁴It is also important to note that the slow shift did not mean that apartheid was over or that the majority of people could feel the benefits of changed fiscal frameworks in less repression and more services. Perhaps characteristically, repression and increased economic hardship were associated with (responsible for) this change.

¹³⁵See Simkins (1984b:17-26) for a discussion of the concepts and their envisaged implementation. The resilience of the process of fragmentation is shown by the transfer of 44 hospitals in March 1999 to own affairs administrations. For a discussion of these transfers and the controversy surrounding it see South African Institute of Race Relations (1990:385-387).

¹³⁶For a discussion of the apparent start of the integration of hospital services, see South African Institute of Race Relations (1990:387-388). At the end of 1990 this process was also initiated to a limited extent in state schools.

mid-1980's there has been an increased insistence from government sources on the need to limit and even reduce the role of the state in the economy. Privatization, in line with developments in the Western European democracies, came to the fore as a policy measure. The focus of this initiative was not only limited to activities of the state in the industrial sector and with regard to utilities. Privatization was also interpreted as applying to all the important fields of social provision. Commissions and policy documents in the fields of education, health, housing, transport and welfare services have all stressed privatization as a relevant policy option.¹³⁷

It is difficult to assess the extent to which these policy orientations have had an impact on service provision and whether this has had the effect of reducing the role of the government in the provision of social security. A number of aspects are relevant here. Firstly, in many cases the policy proposals have not had any effect on the delivery of services to the poor. This seems to be the case in education and welfare services where the basic proposals regarding service provision are still under discussion.¹³⁸ Secondly, in many cases the bigger envisaged role for the private sector is associated with a lowering of required standards which enables less costly provision of services. This seems to be the case especially in housing where the acceptance of informal housing must have some impact in terms of the affordability of housing.¹³⁹ Thirdly, privatization in the sphere of the social services has accompanied a move towards a lower guaranteed standard of provision of social services by the state, especially to its higher income, mostly White, clients. In both education and health there has been an effort to recover a larger share of costs from users.¹⁴⁰ These steps, especially in the fields of health and education, can then be interpreted as a process of releasing funds in order to increase service provision to the poor.¹⁴¹

¹³⁷See Hendrie (1986:215), Hendler (1989:5), Lund (1986:51-52) and *Eastern Province Herald* (January 3, 1991).

¹³⁸See *Eastern Province Herald* (1991) and Committee of Heads of Education Departments (1991).

¹³⁹See Hendler (1989:5).

¹⁴⁰For health see South African Institute for Race Relations(1990:396). In education it is also clear that fees for White children in government schools have been increasing in real terms.

¹⁴¹A parallel case is the removal of the exemption from value added tax on basic foodstuffs. This can be interpreted as regressive. It does, however, also remove indirect subsidies to

While privatization is thus often seen as contrary to the interests of the poor this will depend very much on the nature of the process. At this stage it does not seem as if privatization has reversed the trend towards reincorporation on an equal footing of all citizens, as identified from other policy directions and initiatives. The ambiguity and complexity of current trends and their impact on future provision are central themes of the two concluding chapters and these matters will be further discussed there. As a conclusion to this historical overview it can, however, be asserted with confidence that social policy since 1970 reflected a reversal of earlier regressive trends in social expenditure.

the higher income classes and should make more accurately targeted assistance to the poor possible.

CHAPTER 7 AN APPRAISAL OF STATE PROVISION OF SOCIAL SECURITY IN SOUTH AFRICA

7.1 Introduction

While in Chapter 4 some early pressures for greater involvement by the state in the provision and coordination of social security were noted, in Chapter 5 the limited response, when viewed from the perspective of the composition of government expenditure, was focused on. With the possible exception of the period between the late 1930's and the end of the 1940's, transfer payments and other social expenditure relative to other government expenditures and total production did not increase as would be expected from, among other things, comparative evidence. This suggests that the South African experience might have been exceptional, and that the nationalization hypothesis might not be applicable. Such an interpretation is also indicated by the lack of expansion of the risks covered after the late 1940's. In order to address this question further, Chapter 7 examines in greater detail the characteristics of state provision of social security in South Africa.

Whereas Chapter 6 provided a historical overview of the development of state institutions, this chapter aims at characterisation, comparison and evaluation. An attempt is also made to identify some of the shortcomings of present provision. The rest of this introduction provides some brief remarks on the general nature of South African welfare provision.

In 1960 professor Hansi Pollak, well-known analyst of South African social policy, remarked that in the field of social provision "(t)he development since Union reflects the paradox of colossal achievement and tragic failure. Throughout, there emerges a picture of extraordinary contradiction, bewildering in its stubborn complexity."¹ These apparent contradictions in the field of social provision persist today. The "achievement" can be seen as the development and existence of "the scaffolding of a welfare system for all groups"² or, in other words, that "for all groups there does exist the modicum of a welfare state".³

¹Pollak (1960:22)

²Bromberger (1980:166).

³Hendrie (1986:218).

The "failure" partly lies in the fragmentation, differentiation and discrimination in provision and the lack of success in extending support to the most needy sections of society.

McKendrick traces the contradiction to the fact that the "South African welfare system was stretched to uneasily accommodate the two conflicting influences of modern social work practice and apartheid policy".⁴ According to McKendrick, a number of tendencies reflect the "modernisation of social work and social welfare practices". Among those mentioned are a trend towards rehabilitation, the formation of coordinating structures to improve efficiency and the evolving distribution of functions between state and voluntary effort.⁵ On the other hand the imperatives of apartheid led to the fragmentation of provision resulting in an "uneconomic and inefficient" welfare system and the entrenchment of the inferior quality of services to African people.⁶

Discrimination with regard to quality of and access to services is, however, not the only problematic aspect of social provision in South Africa. Even in the 1990's South African welfare policy caters mostly for poverty as a result of a lack of access to labour power (that is for "the old and young, the blind and disabled"), or what Iliffe has termed poverty in "land-rich societies". The "new poor", those whose poverty does not reflect scarcity of labour power but of land and other resources ("the propertyless and conjuncturally unemployed"), were and are not provided with an adequate safety net.⁷ In fact, the system of welfare provision in South Africa differs little today, especially in terms of the risks against which people are protected, from the rudimentary system that existed in the early 1940's. Only sporadically, such as with the special employment programmes in the 1980's, and recently in response to specific crises, such as the resistance surrounding the introduction of the value-added-tax, have there been efforts at widening the safety net in terms of risks covered.

In addition to inefficiency and inequity resulting from racial preoccupations in social provision, an insufficient recognition of the changing nature of poverty in a developing

⁴McKendrick (1987a:14).

⁵McKendrick (1987a:15).

⁶McKendrick (1987a:15-16 and 18).

⁷Iliffe (1987:4-5 and 142).

society can thus also be seen as problematic. On the one hand, racial obsessions constrained the development of social security provision by restricting the coverage of the population and the fairness of coverage. On the other hand, views about the causes of poverty and the nature of poverty led to the insufficient protection of the population against the risks of modern life.

7.2 Ideal types of state provision of social services

Provision of social security by the South African state does not place it in the league of a welfare state.⁸ It is still useful to weigh South African state welfare policies in the light of certain "ideal types" or "normative models"⁹ of the welfare states in the developed countries. Such comparisons are helpful in identifying the principal characteristics and the essential nature of state provision of social security in South Africa.

Different ideal types are often used as "empirical classifications" and seen as indicating different levels of development of social provision.¹⁰ In this vein, Mesa-Lago refers to the "social security stage" as being more "advanced" than the "social insurance stage".¹¹ Ahmad, in his turn, identifies three stages in the maturation of social security, with provision moving from a "paternalistic" stage through a second "insurance" phase to a phase where "prevention and universality" become the prime concerns.¹²

Such an interpretation of these models is problematic. Real systems consist of a mix of the characteristics identified as belonging to different models and often these categorizations are too simplistic to accommodate the intricacies of real systems. It is also clear that different countries at more or less the same level of economic and social development, as measured by conventional indicators, use diverse systems of social provision so that no unique devel-

⁸A useful discussion of the essence of the welfare state and the requirements to qualify is by Ringen (1987:3-14).

⁹Flora (1986:XXI).

¹⁰Flora (1986:XXII).

¹¹Mesa-Lago(1991:357).

¹²Ahmad (1991:106-107).

opment path can be specified.¹³ As a result of these intricacies these typologies are used merely to identify the nature of the South African system and not to place it at a stage of development along a continuum of phases.

One useful typology, recently used by Mesa-Lago, is the distinction between the "Bismarckian" or "social insurance" model of social provision and the "Beveridge" or "social security" model.¹⁴ These two ideal types can be distinguished on the grounds of:¹⁵

- (a) the extent of fragmentation of provision. That is whether there are separate programmes covering different groups (eg. occupational groups) and different risks. This criterion also refers to the extent of centralization or decentralization of administration or what is sometimes called the "unity" of the system. Insurance type systems tend to be more fragmented, with different schemes being administered by separate bodies. In the social security model administration is centralized and unified under one controlling body.
- (b) the coverage of the population and the nature of the entitlement to benefits. Here the issue is whether the whole population is covered or whether the focus is on certain categories of the population. Mesa-Lago refers to this aspect as the "horizontal" reach or extension of the system. This criterion also refers to how access to benefits is regulated, or specifically, whether entitlement is based on citizenship ("the standardization of legal conditions for entitlement"), or instead on contributions or means testing (referred to as the distinction between "universality" and "selectivity"). An insurance based system normally covers only a proportion of the population, particularly the population employed in the formal sectors of the economy. A "social security" system covers the whole population and further does not restrict certain benefits only to the very poor. Everybody with certain characteristics (for example, old age) qualifies for assistance with a resulting absence of stigmatization of recipients.

¹³For further criticism of the typologies used here, especially its interpretation as identifying "stages" of the development of the welfare state, see Ringen (1937:11-14) and Flora (1936:XXIII).

¹⁴Mesa-Lago (1991:356-357).

¹⁵See Mesa-Lago (1991:356-357), Flora(1936:XXIII) and Ringen (1937:11-12).

A greater commitment by all social groups to the scheme can also result from the universality of the benefit.¹⁶

- (c) the coverage of risks, or what Mesa-Lago refers to as the "vertical extension" or reach of the system. The major risks are referred to in Section 6.3. One can also talk about the "completeness" of coverage in terms of risks.
- (d) whether benefits are equal for different groups or whether there are differentiated benefits related to, for example, the size of contributions. This refers to the importance of "equality" as a principle of the scheme. "Insurance"-based schemes are normally less equal, while "security" systems typically provide flat-rate benefits.
- (e) financing through taxation as against financing through contributions by employers and employees and to a limited extent the state. The method of financing is said to reflect the degree of "solidarity" built into the system.
- (f) whether the system is financed on a pay-as-you-go basis ("pure assessment financing") or through a capitalization of contributions. In the Bismarckian model financing through contributions and capitalization takes place, giving the system its insurance character and limiting the extent of redistribution between individuals. The Beveridge model, in upholding the principle of "solidarity" through financing from general revenues, leads to extensive redistribution, as the underlying tax system is normally progressive.

Another common typology, also often interpreted as providing a development perspective, is the distinction between a "residual welfare model" and the "institutional-redistributive model".¹⁷ In the first case, state welfare only comes into play as a last resort, while the major responsibility for social welfare, if market provision fails, is seen as lying with other social institutions such as the family group. In contrast, Flora defines the institutional-redistributive model as a situation where "social welfare institutions are an integral part of society, providing universalist services outside the market on the principle of need".¹⁸ This distinc-

¹⁶See Mesa-Lago (1991:356-357).

¹⁷Flora (1986:XXI) and also McKendrick (1987b:36). The classification is based on the work of Titmuss.

¹⁸Flora (1986:XXI). See also McKendrick (1987b:36).

tion also provides a number of key differentiating characteristics of different welfare systems such as:

- the "stateness"¹⁹ of welfare provision;
- the extent of fragmentation of provision; and
- the nature of entitlements, especially whether provision is universal or selective.

A further aspect of the distinction between the residual (or "marginal")²⁰ model and the institutional model has to do with the objective of social policy. While in the first case it is endeavoured to provide the minimum or basic means of subsistence ("minimal security")²¹, in the second model the aim is to prevent destitution and reduce inequality. The aim with the institutional model is thus more ambitious, implying a goal of "modifying the structure of inequality and .. to integrate everybody into the mainstream".²²

7.3 An outline of state provision of social security in South Africa

State provision of social security can be classified according to a number of criteria. Attention is given here to the type of benefit, the nature of the entitlement and the objective with the benefit. The South African state provides two types of social security benefits to its citizens, namely cash benefits and benefits in kind.

7.3.1 Cash benefits

Cash benefits are normally divided into three groups, namely:

- categorical transfers or universal benefits²³:

¹⁹See Section 7.9 for a definition.

²⁰This is Ringen's (1987:11) term.

²¹Ringen (1987:12).

²²Ringen (1987:12).

²³According to the definition of Kanbur (1987:115), categorical transfers, or contingent benefits, "are those which depend on socio-demographic characteristics such as retirement, mari-

- insurance benefits (which are dependent on a contribution record); and
- social assistance which provides means tested benefits.

No purely categorical cash benefits exist in South Africa. In the South African case the most important cash benefits are means tested payments to protect against certain phases of the life-cycle and specific contingencies. These are means-tested pensions for the old, the disabled, the blind, war veterans and military pensions and are referred to as social pensions. Means-tested allowances, referred to as maintenance grants, are paid to children, parents and foster parents under certain conditions. A system of family allowances, targeted at the working poor with large families, is in the process of being phased out.

Insurance based benefits are paid in terms of the Unemployment Insurance Act and the Workmen's Compensation Act. The Unemployment Insurance Act provides for the payment of benefits in the eventuality of unemployment, illness and maternity, while the Workmen's Compensation Act regulates payments for loss of income and medical care consequent to injuries sustained or industrial illnesses contracted while in the workplace. Both systems also provide for benefits to the dependents of the insured.

7.3.2 Benefits in kind

Social security services providing benefits in kind will be discussed under the headings of housing, health, education and personal social services. Government provision and financing in the field of housing are complex and have been subject to various revisions over the years.²⁴ In principle the state seems to accept responsibility to assist certain groups of people with housing and accommodation. The following groups have been mentioned:

- "people ... who cannot house themselves for reasons beyond their control" such as "indigent senior citizens, children in need of care, physically and

tal status, whether there are children in the family, whether an individual is unemployed, etc.". Categorical benefits are also sometimes referred to as universal benefits. Ringen (1987:12) defines these as benefits for which purpose "all citizens with the same need are treated equally, irrespective of 'irrelevant' differences between them, as, for example, in income".

²⁴See Hendler (1989) for a recent overview.

mentally disabled people of all ages, victims of natural disasters, welfare cases and people who are resettled"

- "those sections of the population who cannot afford to buy or build their own homes or cannot obtain the required finance from private sources".²⁵

In order to assist the first category, there are numerous schemes. These include the granting of building loans to local authorities to house aged people, loans to welfare organizations to provide accommodation for seriously disabled people²⁶, and state subsidies to children's homes. Various schemes also exist to assist low income groups and those who cannot obtain financing at market related rates. The acceptance of the permanence of African urban dwellers led to the fact that in 1979 loans for African housing could again be obtained through the National Housing Commission at sub-economic rates as was the case for other races since the 1930's.²⁷ Budgeted expenditure of the different government departments involved with housing primarily goes towards additions to the National Housing Fund to enable construction programmes. Significant amounts are also spent on subsidizing home loans and purchasing land for residential development.²⁸ In addition money has been made available on an irregular basis for private initiatives in the field of housing. An example is the recent transfer of funds to the Independent Development Trust, partly in order to address the housing problem.²⁹

In spite of the state accepting responsibilities for the provision of low income housing, it has also been trying to limit its role in the sphere of housing. This has been done through:

- the selling of state housing stock to occupiers;
- more austere criteria for the provision of housing to low income people;

²⁵South Africa, Bureau for Information (1990:548).

²⁶McKendrick and Dudas (1937:194) and South Africa, Bureau for Information (1990:542 and 543).

²⁷Hendrie (1986:110 and 113).

²⁸See South African Institute of Race Relations (1990:103 to 105). For the nature of the different subsidy schemes see South Africa, Bureau for Information (1990:548).

²⁹South African Institute of Race Relations (1990:103), Hansard (20 March 1991:3304).

- market orientated rentals for those people who can afford it;
- a shift towards lower quality housing, self help schemes and informal housing; and
- an increased effort to solicit more private sector participation in the provision of housing³⁰.

Some commentators have seen in the above changes an important shift in policy orientation, one which Glover and Watson summarized as follows:

"This reorientation has taken the form, firstly, of a partial withdrawal of state responsibility for low income housing and a shift in the burden to the private sector and the low income group itself. Secondly, in those areas of housing provision for which the state will continue to take responsibility, there is to be a cutback in financial commitment through the dropping of housing standards."³¹

Although education is not yet compulsory for all population groups, there has been an acceptance by the state of the principle of equal expenditure per child or "equal funding levels for the various education departments".³² Until recently Whites received state financed and produced primary and secondary education (compulsory for 10 years, or to the age of 16), almost free of direct charge. The high level of educational expenditure per White child, the constraint on state resources and a multitude of other factors have frustrated the attainment of equalizing per capita expenditure within the envisaged time period.³³ The cost implications of parity at White levels have consequently led to the tabling of alternative plans aimed at universal provision of education. A general conclusion seems to be that White expenditure cannot be taken as a norm, and that the state can only commit itself to

³⁰See Hendrie (1986:114), Human Awareness Programme(1984:53-55) and South African Research Service (1983:270-277). See also Hendler (1989:5 and 12-15).

³¹Glover and Watson quoted by Hendrie (1986:114).

³²South Africa, Department of National Education (1991:6).

³³South Africa, Department of National Education (1991:6-7).

the provision of free education to a level below what it currently is for Whites.³⁴

A process that is already taking place is the reduction of the real benefits of privileged groups coupled with an increase in spending on other groups. This has taken place through the introduction of increased school fees at "White" schools as a result of the gradual reduction of the state's responsibility for certain expenditures at schools (for example, sports fields, textbooks and stationery). This process is probably indicative of what will happen on a wider basis in future. While the privileged will thus see a decline in educational entitlements, this will be balanced by increased benefits for the previously disadvantaged.

This adjustment will probably take place through making compulsory and providing free of charge seven to eight years of education, with further education entailing increased private costs. In addition, if present trends in White schooling are continued, schooling of a basic standard will in all likelihood be made available, with education in excess of the national standard financed by parents and other non-government sources.³⁵ The fact that state expenditure on education in South Africa is high in international perspective, absorbing around six percent of gross domestic product in recent years, also indicates that such a reallocation of educational entitlement is required.³⁶

The same situation as in education, namely relatively high government commitment of resources combined with extreme inequalities in access, exists in the field of health provision. Government expenditure on health totalled around three per cent of gross domestic product at the end of the 1980's. Although the state provides a large percentage of medical services, these services are free of charge only to the indigent, while low income groups pay small fees for a wide range of treatments such as physician services, hospitalisation and dental services. Local authorities and similar bodies provide family and

³⁴For discussions of this issue see Human Sciences Research Council (1981: 42-44) and South Africa, Department of National Education (1991).

³⁵In White education it is planned to do this through per student subsidy allocations by the state, based on a particular teacher-student ratio.

³⁶Van der Berg (1991a:17-18) and (1991b:34-35).

community health care, mostly free of charge.³⁷ Other categories of expenditure include environmental health (protection against pollution, among other things), mental health, family planning and population development, nutrition services and school health services. In the 1990/91 financial year R350 000 was spent on supplying enriched milk-powder mixtures to prevent malnourishment among children under the age of five. This assistance is given through local authorities.³⁸

In the case of personal welfare services the state takes responsibility for statutory services, that is those required by legislation. These include services to the old, families and children, and the disabled. In most cases personal social services provided by the voluntary sector are subsidized to a significant extent by the state.³⁹

7.4 The extent of fragmentation of service provision

One clear characteristic of the South African system of provision of social security is its fragmented nature. There are different programmes which cater for different contingencies, each of these programmes being administered by different branches of the state. An example is the provision of workmen's compensation and unemployment insurance through separate schemes managed by separate bodies under the control of the Department of Labour. Responsibility for other transfer payments lies with the different departments of health and welfare.

The most important type of fragmentation of service provision in the South African case occurs, however, as a result of the racial differentiation built into all government structures. This resulted in separate departments having responsibility for the administration of matters relating to different race groups. One example of this policy is the fact that health services in the early 1990's were administered by 18 separate departments of health. As the South African Institute for Race Relations explains: "African health services in the white designated areas were administered by the four provincial health departments Health services in

³⁷South Africa, Bureau for Information (1990:527).

³⁸South African Institute of Race Relations (1992:137).

³⁹See Mckendrick and Dudas (1987:194-195 and 203-204).

the ten homelands were administered by the health or health and welfare departments of the homeland administrations. Coloured, Indian and White health services were administered by the own affairs departments of health services of the different ... [houses of parliament]".⁴⁰ Basic community health services are further provided by about 500 local authorities through 1 600 clinics.⁴¹

A similar extent of fragmentation exists in other areas of social provision such as education⁴², income support and housing. The fragmentation tends to conflict with efforts at coordination. Coordination has been attempted through the establishment of national norms and national, interdepartmental, advisory and regional boards and councils.⁴³ The resulting complexity is difficult to characterize but the final structure is a system decentralized (or fragmented) by race, but centralized in terms of provision to the different race groups and in terms of the setting of objectives. McKendrick argues that the South African system reflects a combination of a national and a local approach, "flawed by the racism of the welfare system". In the field of welfare services overall goals seem to be set nationally with decentralization taking place via regional welfare boards and the use of "autonomous community-based welfare organizations" for service delivery.⁴⁴

7.5 The coverage of the population

The concept "coverage" is used to refer to the share of the population, or relevant parts of the population, that is protected or assisted in terms of the different programmes and the nature of the entitlement mechanism. Because of the fragmentation of the services with regard to race and contingencies it is also impossible to provide a concise characterization in this section.

⁴⁰South African Institute of Race Relations (1990:385).

⁴¹South Africa, Bureau for Information (1990:520).

⁴²See Pillay (1990:30-31).

⁴³For an example of the coordinating network see South Africa, Department of National Health and Population Development (1988:11-15).

⁴⁴McKendrick (1987b:37).

There are no categorical or universal benefits available to South African citizens except for primary and secondary education. Even in the case of education, the lack of availability of facilities in certain areas and the failure to make education compulsory for all races have led to incomplete coverage of the population. The education available to some is also of an inferior quality. The inferior quality of teaching can be seen in, among other things, the high pupil-teacher ratios in African schools. Incomplete coverage is clear from enrolment ratios for Africans which are significantly lower than those for other races.⁴⁵ As in all other aspects of state welfare provision, an urban bias is present.

Income support is today either means-tested or conditional on contributions (social insurance), implying that South African welfare provision falls very much within the residual model. To qualify for social pensions (old age, blindness, war veterans and disability), maintenance grants and family allowances, income must be below a certain level. As a result only the very poor qualify for benefits. Maintenance grants, which are paid in terms of the Children's Act, do not provide a general system of relief for poor families. Such grants are only paid under special circumstances, for example when one parent is absent and where custody has been awarded by the courts. An additional programme of family allowances, catering for large families with very low incomes, was introduced in 1947 and initially applied to Coloureds, Asians and Whites.⁴⁶ Asians were excluded from this programme in 1943.⁴⁷ This programme, which was never extended to blacks, still exists today, but few people (only Whites) receive benefits. This limited access is the result of the stringency of eligibility conditions. The system of family allowances is apparently in the process of being phased out.⁴⁸ The number of allowances paid to Whites went down from 434 in the 1978/79 financial year to 54 in 1988/89.⁴⁹ These different means tested and conditional grants can be contrasted with family allowances in the United Kingdom which

⁴⁵See Samuel (1990:20) and Pillay (1990:32-33).

⁴⁶Hendrie (1986:90).

⁴⁷Pollak (1960:17).

⁴⁸South Africa, Department of Health Services and Welfare (1989:45).

⁴⁹For the reasons for the decline see South Africa, Department of Health and Welfare (1984:-61) and South Africa, Department of Health Services and Welfare, House of Assembly (1986:-20). Figures for 1978/79 and 1988/89 are from the relevant annual reports.

are paid regardless of income level or contribution record.

Most categories of formally employed workers below a certain level of income are entitled to claim benefits in terms of the Workmen's Compensation Act. Such claims can be made in the event of disablement as a result of an injury sustained in the course of employment, or as a result of the contraction of an industrial disease. The Act also makes provision for the payment of compensation to dependents in the case of death resulting from the above causes. Compensation is paid from a fund financed for this purpose from risk-rated levies on employers.⁵⁰ The system is not universal in the light of the fact that people above a certain level of income are excluded⁵¹. As a result of the inclusion of agricultural workers the coverage of this benefit is wider than that of other labour legislation. Important categories which are excluded are casual labourers, domestic servants in private households and small institutions (employing less than 5 domestic servants), and certain categories of workers in the defence forces.

Only contributors can claim benefits in terms of the Unemployment Insurance Act. Important sectors of the labour force, such as agricultural workers, domestic workers in private household, certain employees in the public sector, seasonal workers and those with an income above a certain level⁵² are excluded. There is no minimum income requirement in order to be allowed as a contributor, as was earlier the case⁵³. These exclusions, as well as the fact that the South African employment problem consists of a significant number of people in informal employment and a large number of unemployed who have never been in formal employment, illustrate the inadequacy of South African unemployment insurance

⁵⁰For general discussions see Van Jaarsveld, et al. (1983:410-424), Slabbert, et. al. (1990:1-4.5-14.7) and Official South African Trade Unions Directory and Industrial Relations Handbook (1990:78-91).

⁵¹R36 000 in 1990-91, although such people can be included if special arrangements are made with the Workmen's Compensation Commissioner (Official South African Trade Unions Directory and Industrial Relations Handbook, 1990:78).

⁵²R40 248 in 1990 (Official South African Trade Unions Directory and Industrial Relations Handbook (1990:67).

⁵³See Meth and Piper (1984).

as a safety net in the case of unemployment, illness, maternity and adoption.⁵⁴ In 1989 there were 5 564 134 employees who contributed to the Unemployment Insurance Fund, compared to an estimated economically active population of 10 856 000.⁵⁵ In 1989, 342 971 contributors received benefits for unemployment while official estimates of unemployment (Current Population Survey or CPS) in June 1989 among Coloureds, Indians and Africans came to 870 000.⁵⁶ To this must be added White unemployment. It is generally accepted that the CPS estimates of unemployment are conservative. Some "guesstimates" put unemployment at 2.3 million in 1989 with another 4.2 million "underemployed and/or substantially involved in the informal sector".⁵⁷

In the case of health provision, access to government services is also means-tested in the sense that only the indigent can receive services free of charge and that those in the lower income groups are expected to pay a "nominal" amount.⁵⁸ It was estimated in 1990 that 25 per cent of patients in Natal received free medical treatment, while 71 per cent paid only a "small amount" with a mere four per cent paying the full tariff. The situation in other provinces was thought to be comparable.⁵⁹ As with other services, the unavailability of facilities and personnel, especially in the rural areas, also discriminates against some groups.⁶⁰

Housing benefits are also imperfectly means-tested in that rent and repayments on state

⁵⁴There has of course been substantial controversy about the exact nature and extent of unemployment in South Africa. Important contributions to the debate were Gerson (1981), Knight (1982) and Bell (1985).

⁵⁵South Africa, Central Statistical Services (1990a:7.5 and 6.3).

⁵⁶South Africa, Central Statistical Services (1990a: 7.41 and 6.8-6.9.). Iliffe alleges that "only an estimated 0,3 per cent of unemployed Africans drew their main support from unemployment benefits"(1987:264).

⁵⁷Thomas (1990:252).

⁵⁸South Africa, Bureau for Information (1990:527). See also South African Institute of Race Relations (1990:396).

⁵⁹South African Institute of Race Relations (1990:394).

⁶⁰See McKendrick and Dudas (1987:211). One estimate put per capita expenditure on homeland Africans at R52 in 1987, with per capita expenditure of R138 on Africans as a group and R597 on Whites (South African Institute of Race Relations, 1990:394). See also Van der Berg (1989a:24) and Savage and Benatar (1990:152-153 and 157-159).

financed housing units in Black areas are sometimes determined according to income level, although communities can apparently decide whether such flat rates or income-graded payments are to be made. Although it is difficult to find a useful measure of sufficiency of housing availability, it is generally agreed that there is a deficiency of appropriate housing and that the state has failed to ensure adequate access to housing. The insufficient coverage through state provision of housing, normally by making available funds at sub-economic rates, can be seen in the extent of overcrowding of formal housing and the vastness of informal settlements.

With regard to existing schemes it is thus clear that, in spite of the early introduction of many of the schemes in South Africa, coverage is very selective and that universality is still far off. Even with such limited benefits as means-tested social pensions many people who are entitled to benefits, especially in the homelands, do not receive these as a result of inefficiency, corruption, urban bias and a lack of information.⁶¹

An additional aspect limiting access and leading to further selectivity is the differentiated means tests for different racial groups. Although the differentials have narrowed over the last decade, the amount of income and assets allowed before people lose their entitlement to allowances and social pensions are much higher in the case of Whites than in the case of the other races. In the case of old age pensions the income levels at which a person was disqualified from receiving a pension in 1990 was as indicated in Table 7.1.⁶²

⁶¹See Le Roux (1990:91), Moller (1986:56-59) and South Africa (1987:56). Iliffe quotes estimates indicating that up to 100 000 eligible pensioners in Kwazulu and one-third of those entitled in Qwaqwa do not receive pensions (1987:276).

⁶²See Pollak (1981:156) for information on free assets and maximum assets.

TABLE 7.1
ELIGIBILITY REQUIREMENTS FOR SOCIAL PENSIONS 1990

CLASSIFICATION	PRIVATE INCOME (IN RAND) AT WHICH PENSION IS CUT OFF (PERCENTAGE OF WHITE LEVELS IN PARENTHESES)
AFRICANS	141 (51)
INDIANS	252 (91)
COLOUREDS	205 (74)
WHITES	276 (100)
SOURCE: LE ROUX (1990:90)	

All these factors have led to a lower percentage of Africans receiving social pensions than is the case for other groups. This is counter to reasonable expectations, as Africans are clearly the poorest group in society. The percentage of the group qualifying for benefits should exceed those of other groups. This differentiated coverage is of course the result of differential means tests and the other discriminating factors mentioned above. It is difficult to give accurate estimates of the result of such discrimination (that is, coverage by race) because of the lack of systematic evidence on homeland pension payments and population figures. One comparison which does illustrate the limited coverage of Africans is presented in Table 7.2.

TABLE 7.2
COVERAGE OF OLD AGE PENSIONS BY RACIAL GROUPS, 1980

GROUP	POPULATION ABOVE 60(WOMEN) AND 65 (MEN) ¹	NUMBER OF PENSIONERS	PERCENTAGE OF ELIGIBLE AGE GROUP RECEIVING BENEFITS ²
WHITES	367 785	141 926	38.6
INDIANS	27 334	18 233	66.6
COLOUREDS	133 182	93 441	82.5
AFRICANS	725 031	422 351 ³	59.2
SOURCE: SOUTH AFRICA (1987:55)			

Notes:

1. The qualifying ages for men and women pensioners.
2. The means test was not taken into account.
3. Includes self-governing and TBVC-states.

Table 7.2 shows that a smaller percentage of aged Africans receive old age benefits than of Coloureds and Indians, which is surprising taking into account the socio-economic profile of the groups. Other estimates for later years and for other pensions also tend to show this differential coverage and differential backlog in the provision of social pensions and grants.⁶³ One clear example of discriminatory access to state benefits is the fact that fewer Africans (13 389 in 1987) receive maintenance grants and foster-parent grants than Whites (22 126 in 1987), Coloureds (64 713) or Indians (16 536).⁶⁴ Again, it would be expected that the number of grants be positively related to the poverty of the specific group.

South Africa's welfare system, looking at programmes and coverage, is not predominantly insurance based, although certain benefits are administered in this way (unemployment insurance and workmen's compensation). In the case of all other benefits and state services means-testing is the factor leading to exclusion. Discriminatory means-testing and other factors, such as corruption and administrative delays, however, ensure that the actual coverage of the population is not impressive.

7.6 The coverage of risks

Keeping in mind the commonly identified branches of social security⁶⁵, six types of contingencies or risks can be identified. These contingencies are usually formally covered in the industrial countries. These eventualities are:

- (1) Occupational accidents and diseases or employment injury. Here provision needs to be made for medical care, loss of income and for dependents.
- (2) Illness, need for medical care and maternity. Two types of provision are relevant here. In the first place, there is a need for medical care and, in the second place, a need for reimbursement for loss of income.

⁶³See Van der Berg (1987a:22). Calculation of useful ratios here are extremely difficult because information with regard to pensions and grants payable in the self-governing territories are excluded as they become independent while their population figures are still included.

⁶⁴South Africa, Central Statistical Services (1990a:6.4).

⁶⁵See, for example, I.L.O. (1983:2) and Mesa-Lago (1991:367).

- (3) Old age, disability and survivors' benefits. Benefits for these categories are referred to as social pensions.
- (4) Unemployment.
- (5) Family responsibilities. These benefits are normally referred to as family allowances.
- (6) Destitution not related to any of the above factors or where people do not qualify for other benefits because contribution conditions have not been fulfilled.

As was noted, in most of these cases there are some state provisions in South Africa. Coverage is, however, extremely selective as a result of (discriminatory) means-testing, the exclusion of sections of the labour force from coverage in the case of insurance, and as a result of the unavailability of facilities.

Work injury and unemployment is catered for through the respective insurance schemes but coverage of the population is limited as indicated above. State health services provide for medical care, the first aspect under (2). Although the unemployment insurance fund covers contributors in the case of illness and maternity, there is no general scheme of assistance in these circumstances. The social pension system is well established.

Assistance regarding normal family responsibilities (for example, assistance with child rearing through cash subsidies) does not exist and there is no well-defined programme to help destitute people who are not covered by any of the other features of the social safety net. Current nutritional programmes are extremely limited although there have been efforts to extend this type of assistance in the aftermath of the introduction of the value added tax.

7.7 The commitment to equality

A basic commitment to equality is usually seen as resulting in flat-rate benefits (fixed at one level for anybody who is eligible), as is true of the British national insurance scheme. In the South African case there is not such a basic commitment to equality. Benefits in terms of the unemployment and workmen's compensation schemes are proportional to previous

earnings⁶⁶, while pensions and allowances are reduced on a rand-for-rand basis if income exceeds a specified "free income". These factors result in different levels of benefits received by different individuals.

Furthermore, the levels of free incomes specified are determined on a racial basis, as is the maximum amount of pensions payable. Historically, the amount of free income was much lower for Africans than for other races, with Whites doing better than Indians and Coloureds, whose level of benefits stayed on par with each other for most of the time. As a result of the differential free incomes and maximums, unequal benefits payable to the different groups were brought about.

Inequality with regard to per capita social expenditure is shown in the average amount per beneficiary received in the case of maintenance grants and old age pensions as indicated in Table 7.3 and Table 7.4.⁶⁷ A fairly standard pattern, viz. extreme differentiation with the improvement of the position of the other races relative to Whites since the 1960's⁶⁸, can be identified with regard to average benefits, levels of free income and maximum benefits payable.

These steps towards equalization reflect what Van der Berg has called a shift of fiscal paradigm towards acceptance of the need to remove disparities in per capita expenditure between the different population groups.⁶⁹ This acknowledgement, as well as the process of rectifying the situation can be seen in figures for racial per capita expenditure in other spheres of social provision, especially education. Quite often this process of equalization

⁶⁶In 1990 unemployment insurance benefits were equal to "45 per cent of the worker's earnings when he was last employed as a contributor". Pensions in terms of the Workmen's Compensation Act are "calculated at 75 per cent of the worker's monthly earnings up to R2 000 per month". See Official South African Trade Unions Directory and Industrial Relations Handbook (1990:70 and 83).

⁶⁷For a detailed overview of the differentiation in free incomes, free assets, maximum pensions and other aspects, see Pollak (1980: 154-170).

⁶⁸One trend not clearly reflected in these figures is the weakening of the position of Coloured, Indian and African people between the middle 1940's and the early 1960's. This trend will be looked at later in this section.

⁶⁹Van der Berg (1989a:198-199).

is accompanied by a lowering of the real benefits of White recipients, especially since the late 1970's.

TABLE 7.3
MAINTENANCE GRANTS AND FOSTER PARENT GRANTS (Average annual amount in Rand per beneficiary/ percentage of White level in parentheses/various years)

YEAR	WHITES	COLOUREDS	INDIANS	AFRICANS
1941/42	30.00 (100)	12.04 (40)	8.57 (29)	5.48 (18)
1962	374.07 (100)	146.98 (39)	113.23 (30)	58.46 (16)
1972	764.47 (100)	265.16 (35)	237.38 (37)	133.80 (17)
1982	2117.46 (100)	1271.35 (60)	1 233.78 (61)	344.22 (16)
1987	2809.95 (100)	1374.22 (67)	2231.70 (79)	470.31 (17)
1989	3456.68 (100)	N.A.	3065.46 (85)	N.A.

Sources: South Africa (1944:61) and South Africa, Central Statistical Services (1990a:6.4).

TABLE 7.4
 OLD AGE PENSIONS
 (average annual amount in Rand per beneficiary/ percentage of
 White level in parentheses/ various years).

YEAR	WHITE	COLOURED	ASIAN	AFRICAN
1932	54.00 (100)	19.00 (35)	N.A.	N.A.
1942	66.60 (100)	22.20 (33)	N.A.	N.A.
1962	267.19 (100)	118.01 (44)	102.24 (38)	25.27 (9)
1972	472.9 (100)	207.87 (44)	211.35 (45)	57.18 (12)
1982	1637.45 (100)	852.16 (52)	833.60 (51)	429.26 (26)
1987	2356.50 (100)	1541.28 (65)	1541.55 (65)	952.75 (40)
1988	2788.87 (100)	N.A.	2440.22 (87)	N.A.

Source: South Africa (1944:56) and South Africa (1990a: 6.2).

7.8 The financing of social provision

Expenditure on social security in South Africa is, with the exception of unemployment insurance and workmen's compensation, financed from general government revenue.⁷⁰ Workmen's compensation is financed from employer contributions which are risk and experience rated. Unemployment benefits are paid from a fund financed jointly from employee and employer contributions and a contribution from the state. The real value of the contribution of the state to the unemployment insurance fund has declined significantly since its inception.⁷¹

⁷⁰The nature of the South African tax system cannot be discussed here. For a recent overview, see Loots (1991).

⁷¹See Meth and Piper (1984:42-43).

7.9 The stateness of welfare provision

Flora defines the "stateness" of welfare provision, which he views as being negatively related to the scope for market and voluntary provision, as "the degree to which the state has 'penetrated' the welfare institutions".⁷² Increasing stateness is thus closely related to what was termed "nationalization" of the services providing social security. Questions about the appropriate role of the state in the economy are complex and controversial. These issues are relevant in the light of the fact that the present South African government has expressed its intention to shift functions relating to social security onto other institutions to a greater extent.⁷³ In some fields (notably housing) this process has already been initiated.

The intricacies of the interaction between state and voluntary action cannot be analyzed in any detail in this paper. Because of the importance of the issue and to illustrate some of the relevant aspects it is, however, necessary to make some remarks about the relative role of the state. General remarks will be made about the extent of state provision in education and health, whereafter some issues related to income support, especially retirement provision, are taken up. These are areas where significant and formalized private action occurs, making a rough comparison of roles possible. In areas like personal social services, the extensive role of households and informal voluntary organizations, and in housing the complexity of market provision and government intervention, make comparisons even more daunting.

7.9.1 Education

In the field of education, state expenditure on education is often used as the indicator of the cost of education to South Africa. Recent estimates by Trotter have indicated how misleading this can be and, in the context of this dissertation, how this can lead to a misunderstanding of the complexity of the production of services providing social security.⁷⁴

⁷²Flora (1986:XIX).

⁷³See Hendrie (1986:214-215), South Africa, Department of National Health and Population Development (1988) and South African Institute of Race Relations (various years).

⁷⁴Trotter (1988), especially p.85, where the point above is made.

In the specific case of education, focusing on state expenditure figures, which are more readily available than other aspects of the cost of education, might lead to a disregard of the costs which the individual, community and other institutions carry. Trotter's estimates, while confirming the state's dominance in the provision of education, also highlight important other contributions.

His estimates for 1985 indicate that 63.8 per cent of the total cost of education of R10 292 million, which include "opportunity costs"⁷⁵ based on earnings forgone, is financed by the state. Private direct cost made up 12.1 per cent of total cost with "opportunity costs" making up 19.1 per cent of total cost. Private schools, church schools, contributions by foreign governments, etcetera, make up the rest with each of these categories being relatively insignificant. While the dominance of the state cannot be questioned, the realization of the private costs of education could perhaps have important policy consequences.

One implication is that increased state expenditure is not all that is needed in order to equalize educational opportunities and outcomes between the races in South Africa. The fact that the state may be willing to equalize spending does not imply that the effective demand for that equal education will materialize, or materialize in the short run. A lack of "effective demand" might be the result of the fact that poor communities might not be able to finance the hidden private costs of investing in higher levels of education.⁷⁶ This impact of private costs is one of the reasons why using parity in racial levels of expenditure as an objective and as a norm to focus policy can lead to a simplistic overestimate of demand and

⁷⁵Trotter's use of the concept "opportunity cost" is problematical. The accepted usage of the term is not to refer to a specific type of cost but to indicate the "real" value/price or cost of an activity. See, for example, Friedman (1990:43). What Trotter is actually referring to is the implicit/hidden or indirect cost of education which together with the visible/direct costs of education determine the opportunity cost of education. The opportunity cost of education is not only the loss of income concomitant on studying, but the total value of the lost alternative, including the lost alternative consumption as a result of the direct cost of education.

⁷⁶The early struggle of platteland teachers against the farming communities to enforce compulsory schooling has often been interpreted as reflecting the lack of understanding of the community. The economic reasoning behind such "obstinacy" is that the state, by making certain levels of schooling compulsory, is forcing the community to finance the private costs of such education while benefits might only accrue to the society (externalities) or the next generation. In this context the state then has to finance more than just the cost of production of education in order to allow required rates of return for the individual.

the required levels of state expenditure.

While some cost factors might imply an overestimate of demand for education, other aspects might work in the opposite direction. Two factors in particular might result in the parity norm providing an underestimate of state expenditure required. Firstly, the neglect of the implicit private costs of education may lead to a misjudgment (underestimate) of the real cost of equalizing opportunities and democratizing the economy. This is of course the important complaint against the establishment of mere formal equality of opportunity (that is without affirmative action) when trying to equalize levels of living. Secondly, Donaldson has argued that an absence of alternatives to education, that is employment opportunities, might lead to such low opportunity costs of education that the quantity of education demanded might outstrip the ability to supply.⁷⁷ It could then be expected that the state will have to spend more per capita on the education of disadvantaged groups because they will stay in the educational system longer as the result of the lack of other openings. This reasoning might, on the other hand, lead to a different perspective on the real costs of producing employment opportunities through public works schemes.

The above aspects can serve to reinforce the point made earlier in this dissertation that "goods are goods" and further that a complex analysis of the costs of provision and how they differ between institutions is necessary in order to be able to evaluate the rationality of and constraints on state provision. Delving deeper into the "market" for social services might be necessary to predict changes and warn against constraints. A similar point is made by Donaldson when remarking on the "complexity of the social demand for services and ... the interconnected problems which confront governments in the planning and coordination of social services" and warning "that a simple set of rules governing provision or subsidisation will (not) suffice".⁷⁸

⁷⁷Donaldson (1991:13). This factor is taken account of in Trotter's estimate of implicit costs by including the probability of finding employment and the wage elasticity of labour demand in the estimate of "opportunity cost". See Trotter (1988:75-81).

⁷⁸Donaldson (1991:7).

7.9.2 Health

Estimates of the social costs of health, constructed as systematically as in Trotter's analysis of education, are not available. What is available does, however, throw some light on the relative role of the state in this sphere. Total South African state expenditure on health (including the homelands) has been estimated at about 3 per cent of gross domestic product at market prices in the late 1980's (R5.439 billion or 3.35 per cent in 1987/88). Figures for the years between 1975/76 and 1984/85 indicate that the private consumption expenditure on health averaged just less than 80 per cent of expenditure by general government. In these years total health expenditure, defined as general government expenditure plus private consumption expenditure on medical and pharmaceutical products and medical services, comprised between 4.8 and 5.9 per cent of gross domestic product. General government expenditure contributed in all the years about 55 per cent of the total expenditure with private consumption expenditure making up the balance.⁷⁹

It can be noted that this measured level of health expenditure relative to gross domestic product, which probably excludes a number of private costs, compares well with those in other countries and is in line with World Health Organization recommendations.⁸⁰ With regard to the private/public mix the South African position is also not extreme, lying between among others Australia (with 36 per cent of health costs financed privately) and the United States (57 per cent privately provided).⁸¹

7.9.3 Income support

State income support in South Africa provides assistance in the case of:

- vulnerable stages during a person's life cycle (old age, youth and maternity through old age pensions, war veterans' pensions, maintenance grants, unemployment insurance);

⁷⁹The estimates of expenditure are from Taylor and Klopper (1987:302-304). See also South Africa (1986).

⁸⁰Taylor and Klopper (1987:302). See also Van der Berg (1991b:78, Table 4). Cost of services can of course be extremely misleading as an indicator of value.

⁸¹South Africa (1986).

- inability to earn an income as a result of disability or accidents (through blind, disability and military pensions and workmen's compensation);
- death of a breadwinner (workmen's compensation, unemployment insurance and maintenance grants); and
- unemployment and illness (unemployment insurance).

These are of course all eventualities which are fairly common and for which many people prepare privately to some or other extent. Five mechanisms through which income support can be provided can be identified. These methods, which can act as substitutes for each other, are:

- (1) Provision through individual saving and contractual saving (personal insurance) and through supportive household and family structures.
- (2) Community provision through institutions other than the state, market and pension funds, especially by religious bodies and voluntary welfare organizations.
- (3) Private provision of benefits through retirement funds which are in many instances related to the employment relationship (for example by trade unions and employers). Although these are referred to as retirement funds they are frequently used by employees to cope with other hazards, such as disability and unemployment.
- (4) State provision of retirement and disability benefits to state employees, including local authorities and other parastatal organisations. These are normally referred to as civil pensions and are payments to former employees of the state in terms of a contributory pension fund set up by the state for this purpose. Such civil pensions are identical in nature to pension and other retirement provision for their employees by private sector employers.
- (5) State provision of social pensions. Social pensions can be defined as payments by the state to individuals, normally in terms of a non-contributory assistance scheme, but can also refer to a state-run compulsory contributory insurance scheme such as the system found in the United Kingdom. Such a system may be means-tested (as in South Africa) or universal (as in the United Kingdom). Such payments are normally related to old age and disability.

These different categories are distinguished by referring to social pensions, civil pensions, retirement funds, community provision and individual/household provision. Substantial evidence is available on the extent of retirement and other pension provision but calculating accurate ratios of coverage is difficult as a result of the exclusion of self-governing territories and the TBVC-states from the Central Statistical Services data for social security.

During 1978, 259 915 pensioners received benefits from occupational retirement schemes.⁸² Total benefits from these funds in this year comprised nearly R922 million. Of this amount just more than R737 million represented benefits on retirement and death and other benefits offered by the funds. The rest, R184.7 million, represented payments to employees leaving the firms. Of the total number of pensioners belonging to occupational schemes, just more than 45 per cent belonged to schemes for civil servants, with a further three per cent belonging to state controlled funds (which consist largely of local authority funds).⁸³

For a long time it has been a cause of concern that nearly twenty per cent of the payments by these funds represented drainage. Drainage comprises payments for reasons strictly other than those for which these funds were established. This outflow of funds tended to grow sharply over some periods in the 1980's. Such a situation is seen as detracting from "the efficacy of funds as purveyors of social security and indicates how necessary it is for effective arrangements to be made for the compulsory preservation of pension benefits".⁸⁴

Attempts to enforce such preservation met with fierce resistance in the early 1980's. Two reasons, both pointing to problematic aspects of state social pensions and social insurance, have been advanced for this response. Firstly, "premature" benefits from retirement funds might serve to tide workers over periods of unemployment in the absence of a broadly based and adequate unemployment insurance system. Resistance to the confiscation of such an important safety net, especially in the economic climate of the mid 1980's, was then

⁸²Unless otherwise mentioned, figures on occupational pensions and social pensions in this section were calculated from South Africa (1980) and South Africa, Central Statistical Services (1990a).

⁸³For definitions of the different types of funds, see South Africa (1980:4).

⁸⁴South Africa (1980:6).

perfectly understandable.⁸⁵ Secondly, as Le Roux has explained, the means-tested nature of the state social pension scheme and especially the low level of free income could place somebody with a small occupational pension squarely in a classical "poverty trap". Because of access to an occupational pension a person might be deprived of a state pension and end up with a retirement income below the level of the state social pension.⁸⁶ These aspects again illustrate the complex interaction between state and private provision.

Compared to the occupational pensions, social pensions in 1978 were also highly significant and from some perspectives more critical than occupational pensions. If social pensions paid outside the homelands are considered, and maintenance grants and contributory benefits excluded, more than double the number of pensioners benefited from social pensions than benefitted from occupational pensions (623 523 against 259 915 in 1978). A similar situation existed in 1986 and 1987. The overall situation is even more skewed in favour of social pensions, because adding social pensions paid in the homelands may push up the number of beneficiaries by about one third.⁸⁷ Adding other means-tested benefits, such as maintenance grants and compulsory social insurance, pushes the number of people relying on state income support to more than 1.27 million people in 1978 (1.64 million in 1987). This was equal to about 15 per cent of the economically active population and nearly six per cent of the total population, excluding the TBVC countries, in both years.⁸⁸

In spite of the limited coverage of social pensions (see the section on coverage), the large number of people receiving these payments as well as their dependence on this income highlight the crucial role of these social pensions. In summarizing the available evidence Iliffe reiterates the well-known points that elderly pensioners are often the breadwinners for households and that, in many rural areas, especially among the very poor without access

⁸⁵See Mouton Committee (1990:35).

⁸⁶Le Roux (1990:90) and Human Awareness Programme (1984:70-71).

⁸⁷It seems to be clearly established that more Africans receive pensions in the homelands than in the rest of South Africa. Van der Berg(1989a:22) estimated that in 1986, 575 000 people received pension payments in the homelands. An earlier figure indicated that 447 373 Africans received old age, disability or blind pension in the homelands in 1980, with 291 228 receiving these benefits outside the homelands. See Simkins (1984a:3).

⁸⁸Population figures are mid-year estimates, 1985 boundaries. See South Africa, Central Statistical Services (1990a).

to migrant earnings, pensions are indispensable.⁸⁹

In terms of benefits paid, the occupational pension schemes are more significant than the social pension schemes. Total payments from social pensions, grants, unemployment insurance and workmen's compensation outside the homelands in 1986 came to R1722 million, or just more than one per cent of gross domestic product at market prices (GDP_{MP}). Including Van der Berg's estimate of 1986 homeland expenditure on social pensions provides total expenditure of R2239 million or nearly 1.6 per cent of GDP_{MP} . Disbursements from the occupational schemes in 1986 totalled R4505 million (3 per cent of GDP_{MP}).

Total benefits received from the different funds are, however, a misleading indicator of the role of the state in retirement provision. In the first place there is extensive regulation of occupational retirement funds through legislation. The objective of this legislation is to protect the interests of fund members by monitoring the rules, administration and financial health of the scheme. The state also influences retirement funds through investment regulations, referred to as "prudent investment guidelines". Although the situation changed markedly in 1989 with the movement away from extremely restrictive prescribed investments in government stock and other financial paper funding the state, the early history gives a good indication of the state's power to influence and use retirement provision.⁹⁰

A further notable way in which the state influences retirement provision is via tax incentives to invest in retirement funds. With respect to pension funds (distinguished from provident funds), employer and employee contributions up to a certain income are deductible from taxable income. Furthermore, the investment income of pension funds is not taxable, although pension payments (annuities) are taxed as income of the recipient while lump sum payments are partly taxable and partly tax free.⁹¹

It is impossible to monetize or calculate the opportunity cost of these pension interventions in order to come to a reasonable estimate of the role of the state relative to the occupational

⁸⁹Iliffe (1987:272). See also Wilson and Ramphela (1989:63-64).

⁹⁰See Sephton (1990:1-3; 17-19 and 32-37) for a discussion of the regulatory framework.

⁹¹See Sephton (1990:21-30) for a discussion of the tax regime pertaining to retirement funds.

funds. Estimates of the cost of these incentives to the state as a result of tax income foregone ranges between R4 billion and R3 billion in 1990.⁹² This amounted to between 55 to 90 per cent of the yearly inflow of contributions and by far exceeded the direct outlay of the state on social pensions, which was estimated at R2337 million in 1990.⁹³

The Mouton Committee has estimated that membership of retirement funds was just below six million people in 1988 and that in 1986, 22 per cent of formally employed persons were members of private retirement funds. Two things can be noted about this very high ratio compared to some of the more developed countries.⁹⁴ Firstly, although the coverage of the formally employed by occupational pensions seems high, extensive unemployment and informal sector activity means that only forty per cent or less of the population of working age is covered and that the absolute number of uncovered people has been increasing. About 1.75 million employed persons, most probably active in the agricultural sector, were not covered by occupational pensions.⁹⁵

Secondly, the relatively high membership of occupational retirement funds among South Africans is, as the Mouton Committee argues, partly to be explained by the absence of a state social pension scheme providing significant benefits.⁹⁶ These comparative figures then once again provide an illustration of the extent to which state and private action act as substitutes for each other.

Market and employer provision is of course not the only substitute for state action in the field of provision for retirement and other contingencies. The lack of state provision for the

⁹²Mouton Committee (1990:26) and Le Roux (1990:94).

⁹³This is the amount given by Le Roux for "state old age pensions" but these figures almost certainly refer to all social pensions, excluding the homelands.

⁹⁴The ratios for some other countries are as follows: Switzerland, 68 per cent; U.S.A., 45 per cent; Japan, 36 per cent; and the United Kingdom 30 per cent. (Mouton Committee, 1990:14).

⁹⁵Mouton Committee (1990:13 and 15).

⁹⁶Mouton Committee (1990:14).

indigent, aged and disabled Africans⁹⁷, and also the extreme neglect of institutional care, would imply growing communal mechanisms dealing with adversity and deprivation in African communities. These communal responses were, none the less, also threatened and put under severe pressure by certain aspects of government policies in the 1970's and 1980's, such as forced removals under the Group Areas Act. Pinnock has described some facets of this "breaking of the web" of communal and family support systems.⁹⁸ Voluntary organizations also came under increased pressure as a result of government insistence on racially segregated welfare organizations and opposition to White involvement in welfare services to Africans.⁹⁹

It is unclear to what extent collective action in communities and extended families could regroup in the face of these assaults and not enough evidence is available to say to what extent these in fact substituted for the lack of state action. Some commentators are not too pessimistic. Iliffe, for example, argues that "networks of kinship and neighbourhood which helped the urban poor survive" could be re-established ("re-woven") and that "(t)he proliferation of small urban self-help groups matched the inadequacy of formal welfare institutions".¹⁰⁰ As confirmation he refers to survey evidence of kin and "homeboy" support and the existence and widespread membership of rotating credit societies, burial societies and "the hundreds of independent churches". These varied mechanisms provide a range of "benefits", such as support of the unemployed, the chronically sick and the old.¹⁰¹

Information is also scarce regarding the macroeconomic importance, and impact on poverty, of an increasing number of non-governmental development and aid organizations which sprang up during the 1980's. Some of the organizers of these initiatives claim success. Perlman refers to "the multiplicity of large-scale child feeding schemes that have been set

⁹⁷See Table 7.2 above which indicate the percentage of the relevant age groups of the different races receiving old age pensions. The same imbalance probably holds for other pensions although it is more difficult to get appropriate figures for comparison.

⁹⁸Pinnock (1984).

⁹⁹Iliffe (1987:264) and Pollak (1980:171-174).

¹⁰⁰Iliffe (1987:263-264).

¹⁰¹Iliffe (1987:263-264).

up since 1984, and the measured success they have had in combating malnutrition".¹⁰² A more conclusive study of these systems of provision needs to be made.

7.10 Conclusion

The diversity of systems of social provision in South Africa makes a definitive categorization in terms of stylized ideal types impossible. The multitude of programmes with widely diverging coverage and underlying principles present a first case for a systematic overhaul of social provision.

In terms of the typologies derived from the experience in industrialized countries it is clear that the South African system of income support and personal welfare services is residual. Provision by the state is a last resort conditional on destitution. The contrast is perhaps sharpest with the Beveridge system of social security as outlined above. In fact the widespread use of means-testing, also in the domain of health care, places these programmes close to the poor relief systems of nineteenth century Europe, although the targeting mechanisms are perhaps less harsh. The existing social insurance schemes, in spite of having much in common with those in the industrialized countries, are of such limited coverage, that they cannot impart a "modern" character to welfare provision in South Africa. Even in education, universal access to primary and secondary education is still an ideal.

From a different perspective the fact that all groups have some access to a system of welfare services, and the fact that state provision is dominant in many of these spheres, is perhaps surprising and the phenomenon that should be explained.¹⁰³ While the rudimentary nature of social provision tends to discredit, for the South African case, the hypothesis of increased nationalization of welfare services over the development process, the alternative perspective can be used to argue in favour of the strength of this trend. The fact that black people do receive significant welfare benefits from the state reinforces the belief in the

¹⁰²Perlman (1989:80).

¹⁰³This echoes Bromberger's questions in the context of income distribution. He argued that an important issue is why we found any redistribution to the poorer groups, or state welfare services accessible to them in the light of the government's expressed objectives over the last four decades.

primacy of objective economic factors over ideology.

With regards to future trends, and the question whether the future will see increased nationalization, it is necessary to be clear about the shortcomings of state social provision in South Africa. The holes in the safety net (protection) are indeed big and the ladder (promotion) has many missing rungs. These failures are related to many factors.

The South African system of social provision is extremely fragmented. Although fragmentation is not necessarily negative - the successful German system is notably fragmented - it seems to be so in the South African case. In addition to different programmes for different social risks which are closely related, the different racial bureaucracies provide grounds for urgent rationalization.

With regard to coverage it can be said that welfare provision in South Africa is incomplete, residual and selective. It is incomplete and selective because certain social risks or conditions are not addressed. Destitution and malnutrition are not confronted in any systematic way. Formal insurance systems furthermore do not scratch the surface of the problem of joblessness and there is no assistance in the case of normal family responsibilities. Even in the case of services where universal access is an accepted goal (such as education and health) unavailability of services and administrative problems preclude the attainment of this objective. With regard to selectivity racial discrimination remains a problem.

Coverage is residual in the sense that the majority of programmes are a last resort and that the benefits provide a very low level of support. Means-tested benefits do not reach many of the poorest. Hendrie's analysis of the income sources and levels of three urban samples is of relevance here. Of the 666 households sampled, 258 had household incomes below the minimum living level (MLL, as defined by the Bureau of Market Research). Of these 258, only 84 received cash benefits from the state. One tenth of households received cash benefits but still remained under the MLL.¹⁰⁴

¹⁰⁴Hendrie (1986:142 and 210-211). Le Roux shows that for White pensioners the maximum old age pension barely allows them to reach the supplementary living level. (Le Roux, 1990:91).

These two aspects then call for a significant widening of the South African social safety net. An expansion of current means-tested and insurance systems will not do. Insurance systems cannot make an impact where a major part of the population is not in formal employment. The present means-tested benefits also provide only for those who cannot labour because of old age, disabilities or their youth. It is clear that relevant measures in South Africa must also include the working poor and those that cannot find remunerative employment in order to confront the major sources of insecurity.

The urgency of reform is given further justification when taking into account the earlier argumentation and evidence that increased state provision of social security is a normal, and perhaps economically rational, adjustment, and that South Africa is a laggard in this respect. The introduction of a system modelled on the "Bismarckian" or "Beveridge" model can thus provide the country with the opportunity to implement a more efficient and comprehensive system of social security. In terms of the nationalization hypothesis it can be argued that although South Africa fell behind over the last four decades, it can now catch up.

Contrary to the above arguments, only piecemeal changes seem to be on the agenda and most economists seem to agree that the role of the state in the South African economy should not be increased much further.¹⁰⁵ This once again throws doubt on the reliability of the generalization that economic development seems to be associated with a growing relative role of state provision in the economy. This is particularly so for the South African economy. Most of the doubts about the growth of state provision of social services centre around the belief that such provision is not affordable under current South African conditions. Arguments about affordability are taken up in the next chapter which will also look at the usefulness of the generalizations of Chapters 2 and 3 in thinking about the South African situation.

¹⁰⁵See, for example, Maasdorp (1990) and the different contributions in P. Moll, *et al.* (eds.) (1991).

CHAPTER 8 CONSTRAINTS, TRENDS AND PROSPECTS

8.1 Introduction

The unaffordability of increased social provision by the state is seen by most economists as the reason why a rapid equalization of social expenditures and an expansion of the safety-net in terms of risks covered are not possible. As a result of the widespread agreement, this conclusion, and certain related points, can be seen as representing a consensus on the matter. There is, furthermore, a remarkable degree of correspondence between this consensus view and actual adjustments in the economy with regard to social expenditures. These adjustments can be described as reallocation within existing expenditure frontiers.

Both the theoretical consensus and actual shifts are to an extent in contrast to the view, proposed in Part I, that a growing relative role of the state in social provision in a developing economy should be expected, and welcomed. This chapter summarizes the consensus on social provisioning in the future as well as current trends with regard to social expenditure. These considerations will then be used to critically discuss the implications of Part I in the South African context.

8.2 The consensus on adjusting social expenditures

Two points about the expansion, delivery and financing of social services seem to be generally accepted policy conclusions. Firstly, it is widely believed that rapid expansion of social provision to the previously disadvantaged groups must take place. This broad objective is normally interpreted as implying rapid equalization of racial per capita expenditure in the social services.¹ Secondly, it is accepted that equalization cannot take place at current levels of per capita expenditure on Whites.

The reason behind these conclusions are complex. Increasing and equitable social expenditure can be justified on two grounds. Firstly, there is the need for stability through

¹See Chapter 6.

legitimacy.² It is believed that such legitimacy can be promoted through the extension of social services and the equity of such provision. Legislative enfranchisement, it can be argued, must be accompanied by fiscal enfranchisement. Secondly, increased social provision can be seen as indispensable for future growth. This is because certain types of social expenditures consist of investment in human capital and skilled labour. This is related to the fact that the stagnation of the South African economy since at least the early 1980's has often been blamed partly on earlier inadequate expenditure on especially education.³

On the other hand it is argued that equalization of expenditure at White levels is impossible because it would make excessive demands on the economic resources of the country. South Africa is seen as too poor a country, with too many other demands on scarce resources, to be able to afford provision of social services at the levels that Whites have become accustomed to.⁴

A rough indication of the problem involved in equalization at White levels can be constructed by calculating the total cost of spending on each beneficiary in the field of the social services the same amount as the average amount spent on each White beneficiary.⁵ Van der Berg did this calculation for four fields in the social services, namely education, housing, health and social pensions, using actual expenditure figures for 1986. He concluded that to finance such equality of expenditure, social expenditure on these four fields would have had to increase from the actual level of 10.7 per cent of gross domestic product (GDP) in 1986 to between 27 and 35 per cent of GDP. This level of expenditure was described as "clearly not attainable".⁶

²See Van der Berg (1989c), Simkins (1984b) and Yudelman (1984:286-287) for discussions of this imperative.

³See Knight (1989) and Bromberger (1982:134 to 135) for some of the links between earlier regressive social policies and the constraints on growth of the late 1970's to 1990's.

⁴See Human Sciences Research Council (1981:37-44), Simkins (1984b:35-37 and the annexure which quotes Brand extensively) and Van der Berg (1991b:78).

⁵Because only the current number of beneficiaries are taken into account, the impact of removing discriminatory access and means-tests is not included. From this perspective the estimate can be seen as conservative.

⁶Van der Berg (1989b:25).

Using an alternative method Simkins⁷ came to a parallel conclusion. He estimated the average level of likely per capita expenditure on social services, given different scenarios about population growth, per capita personal income growth and the ratio between public and social expenditure and personal income. These estimated levels of per capita expenditure were then compared with actual levels of per capita social expenditure as measured by McGrath⁸ for 1975/76. Simkins' estimates indicated that under the assumption of high per capita income growth (53 per cent between 1976 and 2000) and a large welfare budget (51.75 per cent of government expenditure with government expenditure equal to 32.5 per cent of personal income) equalisation by 2000 would require a 28 per cent drop in per capita expenditure on Whites. A "medium" welfare budget combined with "medium" growth implied equalisation at the average 1975/76 level of expenditures on Coloureds and Indians. He concluded that these exercises show "that it is possible for the state to provide without specific charge only a very basic level of social services".⁹

Inherent in the above two analyses are two constraints on increased social expenditure. There is, firstly, the belief that there is little room for reorganizing or redirecting state expenditure in order to attain higher levels of social expenditure within current levels of total public expenditure. In this regard Van der Berg¹⁰ as well as Peter Moll¹¹ argue that social expenditure relative to the size of the economy in South Africa is already high when seen in comparative and historical perspective. South African social spending, according to Moll, is currently relatively higher than that attained in the presently developed countries at comparable levels of per capita income, as well as being high relative to countries presently at comparable levels of development and expenditure. Thus increasing social expenditure further at the expense of other categories of expenditure, in order to equalize social expenditures at White levels, would seem to be unwarranted.

⁷Simkins (1984b:31-36).

⁸McGrath (1979).

⁹Simkins (1984b:35). See also Hendrie (1936:212-213).

¹⁰Van der Berg (1991b:76)

¹¹P. Moll (1991:122).

The evidence then shows that relative to the size of the economy social expenditure in South Africa is surprisingly high when compared to expenditure levels in comparable countries. This reality also casts doubt on the widespread belief that the abolition of apartheid will lead to significant savings which can be used to increase social expenditures. In this regard Van der Berg provides further evidence. He argues that equalization of educational, pension and health expenditure at White levels combined with significant advances in the provision of housing would cost, in 1986 terms, an additional 15 to 21 per cent of GDP.¹² The possible savings from apartheid, on the other hand, would set free only about 1 per cent of GDP from administrative savings, 0.4 per cent from abandoning industrial decentralisation incentives and another 2.0 per cent from further constraining defence expenditure. This saving, of at most 3 to 4 per cent of GDP, does not go far towards removing inequalities.¹³

Van der Berg also makes the important point that cutting non-social expenditures might have serious socio-economic repercussions. The livelihood of a large number of people, especially through salaries lost, might be affected by such adjustments.¹⁴ Making the adjustment in this way would as a result also be very costly.

If expenditure priorities cannot be adjusted in order to provide rapid "fiscal justice", increasing the level of total government expenditure might provide room for equalization. On this matter most economic commentators are also fairly pessimistic. It is normally argued that, relative to GDP, total government expenditure in South Africa is high compared to that in developed as well as comparable developing countries.¹⁵ This is then a second constraint limiting the expansion of social services. The historical and comparative experience seems to warn against a further expansion of the role of the South African government. The overall tax rate is viewed as a constraint because very high levels of taxation may discourage investment¹⁶ or lead to capital flight and increased emigration of skilled labour. Financing increased social expenditure through increased deficits also leads to well-

¹²Van der Berg (1991b:79, Table 5.3).

¹³Van der Berg (1991b:80-82) and Natrass (1991:31).

¹⁴Van der Berg (1991b:83).

¹⁵Natrass (1991:30), Loots (1991:41-42).

¹⁶P. Moll (1991:122), for example.

known problems. The macroeconomic imbalances which might result from such expansionary policy can cause, among other things excessive inflation and currency depreciation. These, in turn, can destroy the gains of the poor in terms of increased government expenditure.¹⁷

It could be argued that increased social provision can be obtained by using an insurance system, with users then actually being "charged" for these benefits in a more direct way. A major problem of such an option is that social insurance systems depend on a stable wage relationship. Such a framework allows administrative efficiency with regard to contributions and the payment of benefits. The large number of South Africans in informal employment and unemployment stands in the way of an insurance based system becoming an adequate system of protection. This implies that, to a significant extent any adequate system would have to provide non-contributory benefits. This focuses attention on general revenues.¹⁸ The constraints on such financing have been described above.

If it is not possible to ensure horizontal fiscal justice through spending more on social services, as most economists seem to believe, an alternative way has to be found in the light of the seeming consensus that such equalization is of prime importance. Two ways have been suggested. One way would be by equalizing expenditure at levels below current White levels, probably meaning in practise an increased level of services for Africans, constant levels for Coloureds, and a reduction in benefits for Whites and Indians.¹⁹ As Simkins and Van der Berg have indicated this will imply drastic drops in the value of White benefits. Van der Berg's estimates of the implications of parity in 1986/87, taking actual total government expenditure for the year as the constraint, show a required drop in per capita expenditures on Whites from an actual value of R879 to R307, a drop of nearly 65 per cent. This can also be interpreted as implying the need for additional taxes of R3 billion on the White population group.²⁰ In spite of the severity of the adjustment it is apparently felt that this is a necessary way of dealing with the problem in the light of South Africa's status as a middle-

¹⁷See T. Moll (1991b:28).

¹⁸See 7.5 above for a discussion of the numbers involved.

¹⁹See Simkins (1984b:35) and Van der Berg (1991b:76-77).

²⁰Van der Berg (1991b:76-77).

income country. Apartheid has caused "white standards to be raised to unrealistic levels for a middle-income country" and in order to bring standards back to realistic levels, White standards will have to decline.²¹ The practicality of such a reduction would probably work through the state committing itself to a certain affordable level of provision with levels above this having to be purchased directly on the open market or from the state. The emphasis on privatization by the present government can be interpreted, in this context, as a way of bringing about this adjustment.

A second way of dealing with the fiscal dilemma follows from the inappropriateness and inefficient delivery of many social services provided and the possibility of targeting services more accurately at the poor. It has also been argued that funds will have to be used where it presents an investment in future productivity.

This last point has recently been argued by Donaldson in the case of health care, and more generally by Natrass and Roux. Donaldson argues that "curative services must favour the young" and that "it may be necessary to discriminate against the desperately ill or dying". This is justified by the fact that state expenditure on the health care of the old may remove responsibility for such care from households and that technological advance in the care of the dying might increase the congestion of medical services.²²

Natrass and Roux argue that spending should be targeted to areas where it represents investment in human capital. For them this also implies a concentration on the young, "(u)nless it can be shown that consumption transfers to older people are efficient and important ways of contributing to the survival and education of children".²³

The appropriateness of services is also important. As was shown in Chapter 3, the cost of production of a service need not be a good indicator of its value, or impact on well-being. Examples were also given. This is a very general problem in the evaluation of the adequacy of social services. Development economists have often drawn attention to this phenomenon

²¹Van der Berg (1991b:77).

²²Donaldson (1991:17).

²³Natrass and Roux (1991:88-89).

in the context of Third World countries. Specifically, it has been illustrated that a strong commitment to the widespread provision of basic services in the social sphere often results in the attainment of quality of life indicators far superior to the result of programmes providing expensive and advanced services. As a result of the high returns to relatively cheap services, such as primary education and basic health care, countries like China and Sri Lanka could manage high levels of well-being²⁴ for their citizens despite low levels of income. South Africa provides a good example of the opposite case. High levels of health and educational expenditure and relatively high per capita income co-exist with low attainments in terms of longevity and literacy.²⁵

Given this evidence it is possible that a reorientation to providing basic services (especially access to preventative health care and primary education) might not only be fiscally more viable but might also give higher returns, especially in terms of indicators of basic needs.

The above focus on the constraints to state social expenditure and the search for avenues to "escape" this South African "fiscal dilemma" thus open up two related options in the field of services providing social security. On the one hand, a basic level of services must be made available to all, according to what the economy can afford. Service requirements in excess of these norms will have to be financed privately. Secondly, the constraints can be significantly alleviated or circumvented by concentrating on appropriate services which offer the highest returns and by focusing on investments.

8.3 Recent and current shifts in social provision

It is clear from earlier discussions of trends in social provision since the 1970's (6.7) and the current system of provision (7.3) that developments in social provision were parallel to those suggested or envisaged by economists. Therefore the identification of constraints on increased state expenditure and the seriousness of these constraints seems to have been accurate.

²⁴Measured in terms of social indicators.

²⁵See Drèze and Sen (1989:179-187) and Nattrass and Roux (1991).

While equalization of benefits at levels below former White levels is clearly illustrated by developments in education and social pensions, the spheres of housing and health reflect the adjustment in standards and the shift towards more appropriate services.

Tables 8.1 to 8.3 illustrate this movement towards equalization and reduced White levels in the cases of educational expenditure and pensions²⁶. The much faster growth over the 15 year period in the benefits of the other races than that of Whites provides evidence of the narrowing of the gap between Whites and Blacks. The fact that White benefits grew at below the inflation rate implies a reduction in real levels and, as a result, a downward adjustment of the most likely figure for comparison and demands. Present trends do, however, diverge from the policy consensus in that the real levels of expenditure on Coloureds and Indians are increasing. In terms of affordability, it is generally believed that Coloured levels in the mid 1970's and early 1980's should provide the level for equalization.

In terms of more appropriate services and a reduction of standards, Bromberger has remarked that "in housing, health services and the creation of employment there is now a readiness to consider 'informal', 'self-help' approaches, to re-examine whether existing zoning, health and a host of other regulations are appropriate to the small-scale, impoverished business environments of the poor, and to experiment with arrangements for economising on scarce and expensive resources (such as doctors) by utilising more available but less highly trained resources (such as nurses)".²⁷ While such tendencies were still tentative in the 1970's, as indicated by Bromberger, they grew stronger in the 1980's. This can be seen in the increased focus on preventative health²⁸ and the increasing acceptance of informal settlements and self-help housing.²⁹

Although equalization at too high levels is perhaps taking place, the economy is adjusting well to the realities of resource availability as perceived in the consensus outlined above.

²⁶It is clear from Tables 8.2 and 8.3 that the shifts in actual average pension payments and maximum amounts payable were very much alike.

²⁷Bromberger (1982:187).

²⁸See South African Institute of Race Relations (1990:339).

²⁹See Hendler (1989:5). See also the discussions in 6.7 and 7.3 above.

Although government involvement in the economy is still growing, partly as a result of social expenditure growth, there seems to be a willingness to contain government expenditure, bolstered by some very real constraints forcing adjustments.

TABLE 8.1
PER CAPITA ANNUAL EXPENDITURE ON SCHOOL PUPILS AND CONSUMER
PRICE INDEX

CLASSIFICATION	CURRENT RAND		AVERAGE ANNUAL CHANGE 1971/72 TO 1986/87 (percentage)
	1971/1972	1986/1987	
AFRICAN	25.31	476.95	21.62
COLOURED	94.41	1021.41	17.20
ASIAN	124.40	1034.20	15.60
WHITE	461.00	2508.00	11.95
CONSUMER PRICE INDEX (BASE YEAR 1985)	19.9 (1971)	118.6 (1986)	12.64
Sources: Pillay (1990:31, Table 1) and South Africa, Central Statistical Services (1990a:8.20)			

TABLE 8.2
MAXIMUM MONTHLY OLD AGE PENSION AND CONSUMER PRICE INDEX

CLASSIFICATION	CURRENT RAND		AVERAGE ANNUAL CHANGE 1972 TO 1987 (percentage)
	1972	1987	
AFRICAN	6.50	117.00	21.25
COLOURED	20.50	167.00	15.01
ASIAN	20.50	167.00	15.01
WHITE	41.00	218.00	11.78
CONSUMER PRICE INDEX (BASE YEAR 1985)	21.2 (1972)	137.7 (1987)	13.29
Sources: Pollak (1981:157) and Hansard (1991).			

TABLE 8.3
AVERAGE ANNUAL OLD AGE PENSION AND CONSUMER PRICE INDEX

CLASSIFICATION	CURRENT RAND		AVERAGE ANNUAL CHANGE 1972 TO 1987 (percentage)
	1972	1987	
AFRICAN	57.18	952.75	20.63
COLOURED	207.87	1541.28	14.29
ASIAN	211.35	1541.55	14.16
WHITE	470.44	2356.50	11.34
CONSUMER PRICE INDEX (BASE YEAR 1985)	21.2 (1972)	137.7 (1987)	13.29
Sources: South Africa, Central Statistical Services (1990a:6.2 and 8.20)			

8.4 Remarks about prospects

In the light of the seeming correspondence between prescriptions (see 8.2) and real changes (summarized in 8.3), the relevance of the conclusions of Part 1 and the notion of nationalization seems to be limited. The implications of the agreement on constraints is that social policy will have to be a holding operation in the foreseeable future. The core needs and equalizing access to services providing these, such as primary education, preventative health care and the availability of sites for self-help housing will have to be concentrated on. A prominent feature will thus be the reduction of the benefits available to the privileged sector of society. In aggregate the role of the state should only grow marginally.

In contrast, Part 1 of this study, interpreted in conjunction with the limited nature of the South African welfare system, implies an increased role for the state. The South African economy has developed little in terms of social provision since the end of the 1940's and the absence of formalized support from the state can be seen as out of line with its level of economic development. A constant reassignment of functions from other institutions would be expected, especially in the field of family support and child-rearing and also with regard to protection against the ravages of joblessness and poverty in general. From a comparative perspective the low levels of transfers to households relative to developed countries, which can be related to the absence of a general system of social assistance, make an increase in this category distinctly plausible. The theoretical analysis of Chapter 3 also suggested that expansion of the role of the state in providing security should be

affordable because it merely consists of a reallocation of functions to the institution with the comparative advantage.

The implications of the theoretical and comparative perspective can be reconciled with the scepticism about the possibilities of the expansion of the role of the state in a number of ways. Two of these would allow agreement with the consensus opinions on affordability while an alternative would be to question some of the assumptions underlying this consensus.

A first method of bringing the two sets of conclusions in agreement would be by arguing that current trends represent a short term movement or readjustment within a longer term tendency. The peculiarities of the South African growth experience and especially the ideological and resulting external influences can be seen as responsible for stagnation and therefore also a lull in the development of social policy. Once renewed growth takes place within a new political and structural environment resources will become available for state provision of expanded social security. This avenue is, however, less than satisfactory because it necessitates the acceptance of the starting point of the current notions on affordability, which is that expanded state provision of social security is a luxury. These underlying assumptions will be discussed shortly.

A second way in which the conflict between the two sets of predictions can be resolved is by arguing that in spite of the insufficiency of the South African state social support system other institutions such as families, communities, unions, employers and the market can adequately substitute for the state. Thus, the alternatives to state mediated social security, such as family support and community support and "occupational welfare"³⁰, might be adequate. There is, according to this line of argument, not a need for more functions to be reassigned to the state. One place where this reasoning is underlying is found in Donaldson's argument that "(w)hen ... the state provides generously for the health of the aged, then households are encouraged to curtail care of the elderly".³¹ Some of these substitutes were discussed under the stateness of welfare provision (7.9). The ability of

³⁰Atkinson and Hills (1991:90).

³¹Donaldson (1991:17).

these institutions to substitute for the state is to an extent an empirical question which cannot be resolved here. The question is, however, not only about the ability of these institutions. It has been clearly illustrated that a large number of institutions can provide the different services providing social security. The question is concerned, rather, with which institution can provide these services more efficiently.

Following from the above, it is clear that there are important points on which the current consensus on what levels of social expenditure are sustainable conflicts with the theoretical precepts of Part 1. Most importantly, there is the underlying assumption that a more complete social safety net is a luxury which can only receive attention after some unspecified level of production has been attained. This perspective also assumes that expanded state provision must involve additional claims on scarce resources. This need not be the case if provision by the state involves a "mere" reallocation from one supply source to another. In this sense, a focus on the cost of equalization at current levels of White per capita expenditures represents an overestimate of the resources necessary to establish equality. The consensus view thus disregards the fact that protection might be a priority in poor communities which already claims a large share of resources. The possibility exists that state provision might improve efficiency, and in so doing can release resources, as was argued in Chapter 3.

In addition to overestimating the cost of expanded state provision, current notions about the direction in which social provision should adjust (basic services and more accurate targeting to the needy) might be underestimating the cost of changing over to such provision. Firstly, withdrawing state support from advanced services, such as academic secondary schooling and academic hospitals, might imply a destruction of costly human and other capital through loss of jobs, closure of departments, etcetera. Secondly, such privatization will often tend merely to shift responsibility for costs to different authorities. Current reform of White education might be seen in this light. With government giving more management responsibility to individual schools a number of tasks that were centralized are now merely being duplicated at a lower level. Whereas increased ability to monitor costs might be a benefit of such decentralization, decentralization also implies, in this context, less specialization.

In addition to the costs of drastically changing current systems of provision, there are also significant costs involved in targeting benefits more accurately.³² Note must be taken of the administrative costs of targeting, disincentive effects of means tests and other means of targeting, and the loss of public support for programmes as a result of very specific targeting.

The final balance of these different costs and benefits cannot be established here. Perhaps the only proximate indication of this will be the eventual nature of social provision in South Africa, which must be assumed to be a response to different forces on the demand and supply side, and therefore also a response to the structure of costs.

Although current trends seem to indicate that the costs of increased government intervention are becoming excessive there are also other signs of pressure to expand the role of the state and of increasing reassignment of functions to the state. Two instances from the field of retirement provision can serve as examples.

Drainage of funds from occupational pension funds has been seen for a long time as a serious problem³³. Such drainage results in people retiring without adequate provision for retirement and with resulting greater dependence on social pensions. Drainage is also onerous from the perspective of the individual, who does not only sacrifice the contribution of the employer but would have been able to earn higher returns with other forms of saving.

The most likely solution to the problem is compulsory preservation of benefits, which has been proposed by most of the commissions reporting on the matter since the 1960's. An effort at implementation of such preservation in the early 1980's led to widespread opposition which resulted in withdrawal of the proposed legislation. Most prominent in this opposition were trade unions and African workers. Commentators see an important reason for this opposition in the fact that many workers need pension money in order to bail them over temporary crises such as unemployment.³⁴ This example illustrates two points which

³²For general discussions of the problems of targeting and leakages of benefits see Kanbur (1987), Glewwe and Van der Gaag (1993) and World Bank (1990).

³³For discussions see Actuarial Society of South Africa (1990:23), Mouton Committee (1990:34-36), South Africa (1980) and 7.9 above.

³⁴Mouton Committee (1990:34-36).

support a view that increased government intervention in the field of social security is likely. In the first place it illustrates that some problems of security provision cannot be resolved without central intervention. Secondly, it illustrates that trying to judge individual parts of the social security system in isolation is inadequate. The different components of social provision are closely related and adjustment of one part of the system must depend on its ability to combine with other components. Reform of the system of retirement pensions will require an adjustment of other mechanisms of social support.

A second example from the field of retirement provision also provides signs of approaching expanded state intervention. The Mouton Committee, investigating retirement provision in South Africa, recently recommended that social pensions in South Africa should be made universal in the sense that the means test should be abolished. This recommendation apparently flowed from their belief that the means test as targeting mechanism so distorts economic activity that it should rather be done away with. The implication is also that it is not possible to adjust the means test in order to improve its working.³⁵ Once again it seems as if the anomalies of limited and targeted schemes result in these being too costly if a wider notion of cost than just monetary cost or share of gross domestic product is considered. It is probably these considerations which prompted the executive director of an important firm in the pensions industry to inform the 1991 convention of the Institute for Life and Pension Associations that

"the present dispensation may continue subject to legislation regarding compulsory membership and preservation, but I feel this is unlikely. The two likeliest scenarios are:

1. Nationalisation or state schemes.
2. State regulated schemes for the common good of all."³⁶

³⁵The interim report of the committee which was submitted to the Minister of Finance at the end of 1990 is not available to the public and the final report has not been submitted. Information on the recommendations is as provided by the Minister of Finance in his 1991 budget speech (see Hansard, 20 March 1991, cols. 3306-3307).

³⁶Tomsett (1991:2-3).

The above two examples cannot settle the matter on the likely and rational direction of future state provision of social security in South Africa. Building on the comparative and theoretical perspective of Part 1 they do, however, suggest that current notions of affordability of state provision of social services might be misleading. Complex considerations of costs and benefits are not taken into consideration in these judgements. The opposite argument is not that there are no significant constraints on the role of the state and social expenditure. What is asserted is that the complexity of considerations necessitates a more disaggregated view of state provision and a more careful analysis of costs. Such an analysis might indicate a rapid expansion of the system of social support as a rational response to the current situation. This indicates the necessity of exploring the possibilities of a radical adjustment of the pension system and reconsidering the viability of a comprehensive system of social security for South Africa.

The lack of legitimacy of the South African economic system and the extent of inequality and deprivation requires creative solutions. The time might indeed now be ripe to implement programmes with the coverage suggested in the early 1940's by the government appointed Social Security Committee and National Health Services Commission.³⁷ Official realization of poverty and the number of initiatives in the policy field³⁸ also suggest that a coordinated effort is politically feasible. The political demands for a more equitable distribution of income and wealth provide further motivation for thinking about thorough policy reform.

³⁷South Africa (1944a) and South Africa (1944b). See also the historical discussion of Chapter 6.

³⁸See Section 6.7, above.

CHAPTER 9 CONCLUSION

This study has attempted to establish some relationships between economic development and state provision of social security. Generalizations made regarding this relationship have been used to analyze social provision by the state in South Africa. The conclusion provides a summary of the central arguments of the study, remarks on more general implications and makes some research suggestions.

9.1 A summary of the argument

In the first conceptual chapter it is argued that for the purposes of this study it is necessary to define social security more broadly than is usually the case. Social security is thus defined as the objective of providing, through collective mechanisms or collective choice, protection against deprivation and vulnerability. Social measures to promote security in the longer run (education, housing, health) can be seen as substitutes and complements for the measures with more direct effect (cash assistance and insurance schemes). Social security is distinguished from other possible ways of attaining security by arguing that the relevant mechanisms lead to entitlements which are not production or trade based. This means that benefits are normally in the form of transfer payments or "transfer goods".

Moreover, the point is made that collective provision need not refer only to state provision, and that the state should not be seen as having a monopoly over the provision of social services. Both empirical generalizations and theoretical welfare economics, as conclusive arguments to justify government provision of social services, are found wanting. Many different institutions do in fact provide similar services, and a whole range of intermediary institutions can deal with public goods and externalities. Furthermore, the publicness of certain goods are related to concrete historical circumstances and not to the inherent nature of the goods themselves.

The implications of these first definitional and theoretical considerations are important. It makes it possible to view the state as one of a number of producers vying to provide certain goods. The outcome with regard to source of supply must accordingly be seen as the result of competitive costing and be explained with regard to considerations of cost of

production and comparative advantage. The analysis implies that the growth of state provision of social security need not imply the satisfaction of "new" needs, but a different way of providing - under certain conditions - for the clear societal need of protection against deprivation and vulnerability. It is hypothesized in the conclusion to Chapter 1 that the growth of state provision of social security can be explained as a reassignment of the function of providing social security from other institutions to the state.

Chapter 2 provides available empirical information on the growth of state provision of social security. Three sets of evidence are used. In the first place it is shown that in two currently developed countries social provision by the state has expanded significantly over the last century with the state currently being the dominant supplier of these services. Some indication is also given of how this state provision evolved from self-help, informal and voluntary efforts. Secondly, time-series and cross-section data show a positive relationship between economic development (measured in output terms) and the relative role of the state in the economy (measured by government expenditure relative to gross domestic product). This growing relative role of the state can partly be explained with reference to growing state social expenditures and transfers during the development process which lead to a growing share for social expenditure in the government budget. The third and most direct way of testing the central hypothesis of increased nationalisation of social security provision, looking at the changing sources of transfers, is inconclusive because of the limited studies available on this issue. The three sets of evidence together do, however, indicate increasing state involvement in these services, and the contrasting decline in the involvement of other institutions.

Chapter 3 explains this trend towards increased state provision in economic terms. It is argued that modern economic development affects the cost of production of social services by different institutions differently. In particular, three aspects of costs which are seldom explicitly taken into account lead to the state attaining a comparative advantage in social provision. These are transaction costs or the costs of controlling the free-rider, deadweight costs and the costs of taxation. The cause of government growth in the field of social security can then be ascribed to changing supply factors which affect the comparative advantage of institutions. As this adjustment, which reduces the role of intermediate organizations, is in line with underlying economic factors it is efficiency-enhancing. Greater

social provision therefore need not detract from future growth. This approach also allows a new outlook on the question of the affordability of social security provision in poor countries.

Part II of the study deals with state provision of social security in South Africa. Chapter 4 recounts some aspects of the early history of social security in South Africa. It provides evidence of: formalized social security in a poor, pre-industrial society; a variety of institutions active in the field of social provision, complex interaction between these institutions and, at least initially, an absence of domination by any one type of institution; and increasing pressures towards the coordination of services by a central body as the scale and nature of the society change.

Chapter 5 studies the changing level and composition of government expenditure between 1910 and 1990 in order to provide an indication of changing state priorities and a background against which to discuss the development of South African social policy. A number of tentative conclusions were formulated. Although the period up to 1949 saw progressive adjustments in the field of social policy this trend was reversed between 1949 and 1976. This reversal and the mere marginal changes in social expenditures in the 1980's are unexpected in the light of trends in other countries and the extent of poverty in South Africa. One clear illustration of the nature of social policy in South Africa and its failure to adjust, compared to that in the rich countries, is provided by focusing on government transfers to households as a percentage of personal income. In addition to being significantly below the percentage in rich countries, the South African level also stayed constant over the last 4 decades.

The focus on the historical evolution of social security measures discussed in Chapter 6 provides further generalizations about the development of social security in South Africa. It underscores the fact that the period before 1949 saw important extensions of support, not only in terms of risks covered but also of the population, especially of previously excluded "race" groups. The reversal of policy after 1949 is illustrated by data showing increasing racial discrimination and examples of certain benefits which were withdrawn. The strength of the forces generating increased state intervention in the social sphere is, however, also evident. The fact that a rudimentary system of benefits was developed for all groups and

that these benefits became more equal after the 1970's, contrary to expressed state policy of excluding Africans from the "White" economy, shows how greater interdependence of individuals in an industrializing society makes expanding state provision unavoidable.

Chapter 7 surveys the important state programmes providing security and considers these in terms of conventional criteria. It was concluded that the system is fragmented in a way that is harmful, lacking in terms of both coverage of the population and coverage of risks, and that benefits are unequal. In terms of coverage of population, the shortcomings relate to the fact that some benefits only apply to members of the labour force employed in the formal sector and to the existence of discriminatory eligibility conditions, strict means tests and inefficiencies of the delivery system. Unavailability of facilities, especially in the case of benefits in kind, leads to further problems of access. In terms of risks covered, deficiencies relate to the fact that there is no general system of assistance for people who fail to qualify for any of the insurance benefits or the benefits applying to those without access to labour power. There is thus no income support for the working poor, the labour force outside the formal sector of the economy or in the case of normal family responsibilities (for example, cash payments to families with children). The deficiencies of the South African mechanisms therefore not only show the effect of racial discrimination but also the failure to cater for those who become vulnerable in a rapidly changing economy and to adjust to the demands of a modern economy. The analysis of the relative role of the state in selected spheres and the interaction between state and other provision provided evidence of the dominance of the role of the state in the field of health, education and income support. The interaction between different programmes lent further justification for the argument that all relevant interventions must be considered together, also for policy purposes.

All of the chapters on social security in South Africa provide evidence of shortcomings and a failure of social policy to adjust sufficiently to changing circumstances. The final chapter addresses limits on a shift towards a more equitable and complete safety net, specifically the affordability of equal and expanded coverage. The focus on resource and fiscal constraints is useful because it provides some guide to the changes that are necessary. A need to focus to a greater extent on the poor and on more appropriate services providing higher returns flows from this perspective. In addition, this consensus on affordability also explains some of the adjustments that are currently taking place with regard to social

provision in South Africa. This study, however, concludes by noting some pressures towards greater state intervention and less accurate targeting of benefits and suggesting that such options might be the economically correct ones to take. Nationalization of the services providing social security is, to a greater extent than is presently the case in South Africa's, on the grounds of the reasoning and evidence in this study, economically feasible.

9.2 General implications of the study

Early development theories are alleged to have suffered from a certain (physical) capital fundamentalism and were subsequently countered by a focus on the significant, and perhaps superior, returns to investment in human resources. Although this perspective is clearly important this study argued that social services can also be analyzed fruitfully by viewing them as less *sui generis*, and analyzing their provision together with other goods and services contending for people's income. This then provides an alternative way of analyzing the efficiency of the production and financing of these services. The "goods are goods" perspective, based on the analysis of Breton (see Chapter 1), serves to integrate important "public goods" back into the mainstream of microeconomics. This is so especially with regard to the theory of supply.

By analyzing these services within the domain of markets or quasi-markets it also enables their discussion without focusing principally on issues of justice, merit goods and market failure. While both the Ricardian tradition and that of theoretical welfare economics acknowledged the primality of the question of distribution, the tradition of viewing efficiency and distribution as separate analytical issues is firmly established. By focusing on the efficiency enhancing effect of the provision of social services by the state, activities usually entailing progressive redistribution, some of the contradictions and trade-offs can be resolved. Both Melck and Donaldson have recently commented that it is credible that redistribution is a precondition for growth but that economic theory provides little guidance on why this should be so, especially in the short run.¹ Although the assertion must be tentative, viewing state provision as the best that can be done in the face of stable demand and given resources provides a possible way in which greater equality can be squared with improved efficiency and hence greater well-being for all.

¹Melck (1991:190) and Donaldson (1991:1).

These first two perspectives also make possible a view of the state as less monolithic, and as a "tool" which people utilize to advance the well-being of all. This contrasts with the dominant public choice approach which sees state action as leading, in most cases, to unproductive activity and private rents. It also, however, diverges from the tradition in modern welfare economics which simply assumed the benevolent intervention of the state without rooting such outcomes in individual motivations.

9.3 Research suggestions

Two broad areas of research corresponding to the two parts of this study can be identified, namely general theoretical/comparative concerns and South African issues.

With regard to theoretical issues the notion that state intervention represents a response to changing supply conditions clearly needs to be evaluated in the context of specific state interventions. The different suppliers of similar (social) services must be identified and their dominance over time explained in terms of concrete demand and supply factors. Most of what is available is quite general and mainly suggestive, or focuses on too limited a set of costs. An especially challenging area is that of measuring the magnitudes of transfers provided by different institutions, currently and over time, and to investigate the changes in and incentives behind these transfers.

The study has also highlighted a number of gaps in the study of the South African economy. Both in the fields of history and economic history much work can be done on the early institutions and collective mechanisms through which people escaped insecurity and deprivation. Not enough is known about the role of the multitude of intermediate and less formal institutions in protection and promotion. Very little work has also been done on the development of the major components of the South African welfare system and the changing role of the state as a supplier. Why did the early system of non-contributory maternity benefits disappear? What led to the institution of workmen's compensation and unemployment insurance and what was behind the radical proposals of the Social Security Commission and Health Services Commission in the 1940's? Why did old age pensions for Africans survive the Nationalist onslaught? While this study offered some general responses to some of these questions, the challenge lies in exploring the detail.

This study is rooted partly, as explained in the introduction, in the lack of knowledge about, but clear importance of, institutional change in the process of economic development. It was attempted to formulate an outline of the changing role of the state in the provision of services providing social security and to suggest how this changing role relates to and affects the process of economic growth. The South African application clearly indicated the complexity of the issues and how little can be said, and predicted, with certainty. Clearly a lot of work needs to be done in this field.

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