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SOUTH AFRICA: INCREASING OPPORTUNITIES FOR THE POOR

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About Enterprise Africa!

Enterprise Africa! is a research project that investigates, analyzes, and reports on enterprise-based solutions to poverty in Africa. The project is uncovering some of the hidden success stories in Africa—stories of people and policies that make a difference in the lives of Africa's people today. In essence, it documents African solutions to Africa's problems. These success stories involve intrepid, committed entrepreneurs across the continent who are developing an amazing array of businesses—from small-scale shops to multinational corporations—and the institutions that support them. These entrepreneurs are promoting economic growth and are an unheralded key to poverty alleviation. Enterprise Africa! is a joint initiative with the Free Market Foundation of Southern Africa and the Institute of Economic Affairs of London, England and is supported by a generous grant from the John Templeton Foundation.

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KAROL BOUDREAUX AND JOHAN VAN DER WALT

EXECUTIVE SUMMARY

As South Africa faces a new round of parliamentary elections in April 2009, the country confronts a host of difficult political challenges. These elections will test the country's commitment to democratic institutions and peaceful political transitions. It will also test past public policies—policies that are criticized for falling short of delivering positive economic opportunities throughout the country, especially for the poor.

In this Country Brief, we focus on three domestic policy issues that are important to expanding opportunities for South Africa's poor: employment, education, and security. We also focus on three foreign policy issues that are significant to leveraging South Africa's unique position in international affairs: regional integration, good governance, and public and cultural diplomacy. Some of our recommendations include the following:

- Encourage the entry of more private-sector educational entrepreneurs by reducing the costs of opening and operating schools.
- Create special economic zones to encourage business development, job creation, and skills training.
- Encourage crime reporting and community involvement.
- Promote regional economic integration by reducing the barriers that the multiplicity of memberships in regional trade organizations present.
- Take a more principled stance in foreign affairs.
- Promote the attractiveness of South Africa's culture, policies, and political ideals to gain an influence beyond traditional balance-of-power politics.

The manner in which the country and its key political contenders—the African National Congress (ANC), the Congress of the People (COPE), and the Democratic Alliance (DA)—manage this period of transition will have a large impact on the political economy of South Africa and its surrounding region. With a new focus on expanding opportunity and good governance, the country can play an ever more meaningful role in the region, continent, and world.

SOUTH AFRICA: INCREASING OPPORTUNITIES FOR THE POOR

I Introduction

FOR SOUTH AFRICA, 2009 is a transition year. This year marks the third time since 1994 that the country will hold democratic elections. Parliamentary elections (see “The Structure of South African Government,” p.2) on April 22 will pit the ANC and its leader, Jacob Zuma, against several opposition parties. These include a new party, COPE, led by Mvume Dandala, and the DA, led by Helen Zille. Taking place in the midst of a worldwide economic downturn, this election makes the choice of political leadership especially important.

Although the country is relatively stable economically and politically, any new government faces difficult challenges. Fifteen years after its transition to a multi-racial democracy, the country is still painfully divided. A wealthy few—increasing numbers of whom are black—have significant resources and live with developed-world trappings. They drive expensive cars and live in large, gated homes in the suburbs.

However, the bulk of South Africans are still poor. Poverty is particularly prevalent in rural areas. Millions of South Africans (and, increasingly, immigrants from other African nations) live in informal settlements and slums located near urban centers. They have few services and live in difficult conditions. They are searching for opportunities to work and improve their lives, but for too many, opportunity eludes them. They cannot find jobs, and the schools that serve them do not prepare them for work in a globalized, competitive economy.

These problems should come as no surprise. Since 1994, South African governments have faced truly daunting challenges. The majority of the country’s citizens, who are black, lived for many years under a discriminatory legal system that forbade them to own property, severely

limited their employment opportunities, placed their education in the hands of government, and restricted their movement. Righting these past wrongs will take time. Increasing economic opportunity is key to accomplishing this goal.

Although the country has done well by some measures, such as maintaining fiscal stability and providing an environment largely conducive to foreign and domestic investment, in other important ways the past ANC governments have failed to live up to expectations. South Africans face high crime rates, a poor education system, poor municipal service delivery, and, increasingly, a manipulated media. Corruption seems to be growing, and the justice system is less robust than it once was. While economic growth has been good for the past five to six years, many citizens feel left out. The upcoming election gives South Africa’s political leaders an opportunity to respond to this discontent as well as to charges that the country’s foreign policy has been woefully misguided.

The ANC’s recently issued “Manifesto” outlines a set of policy responses it would adopt to promote economic growth and opportunity for all South Africans.¹ These policies advocate greater government direction of, and involvement in, the economy. However, if a new government adopts policies that limit entrepreneurial opportunity and make investment risky, economic growth is likely to stall and discontent to rise. If this happens, destabilizing violence aimed at foreigners may continue (see “Killing the Competition,” p.11).

Uncertainty over the country’s future combined with a global economic downturn and falling commodity prices may be contributing to the erosion of the value of the rand vis-à-vis the U.S. dollar and the euro.² In terms of foreign policy, the country’s failure to take a strong, principled stand against the Mugabe regime in Zimbabwe and its support in the United Nations Security Council

1. African National Congress, *Working Together We Can Do More*, 2009 manifesto, <http://www.anc.org.za/elections/2009/manifesto/manifesto.html>.

2. In a 2009 article, *The Economist* discusses concerns over the future direction of the South African economy given the upcoming election but suggests that the nation may be well positioned to weather the world-wide recession. See “Tough Times Ahead,” *Economist.com*, February 12, 2009, http://www.economist.com/world/mideast-africa/displaystory.cfm?story_id=13109968.

of other authoritarian regimes put South Africa's role as a strong advocate of human rights at risk.³

Nonetheless, South Africa plays a leading role in regional economic and political organizations. Given the country's unique role as the continent's largest and most powerful economy, it could become the driving force of African economic and political reform. But will this leadership role continue? The ANC's recent election "Manifesto" is troubling because the policies it contains pander to politically well-connected groups, such as unions, and say little about the need to expand entrepreneurial opportunity for South Africans.⁴ In addition, it says vanishingly little about the need to steer a new, more principled course in foreign policy.

For these reasons, among others, upcoming parliamentary elections are especially important. In April 2009, South Africans will choose a new parliament and a new president. Will this new government lead Africa in promoting economic and political reforms that spread opportunity and promote human freedom? Will internal struggles mean that economic reforms benefit a politically favored few? Will the country finally take a strong stance against tyrannical governments, in favor of improved governance around the continent? These are some of the stark, basic choices confronting a new administration. How the new government answers these questions will determine whether South Africans prosper and whether the country is a destabilizing force in the region or a force for greater regional cooperation and accountability.

THE STRUCTURE OF SOUTH AFRICA'S GOVERNMENT

A constitutional democracy with a three-tier government (national, provincial, and local), South Africa operates as a Westminster-style parliamentary system. South Africa's system of governance is unique in that the national, provincial, and local levels of government all have legislative and executive authority in their own sphere. According to South Africa's constitution, these different levels of government are all "distinctive, interdependent, and interrelated."¹ At the national level, the state is divided into three branches of government that are separate and independent: legislative, executive, and judicial.

The Constitution of the Republic of South Africa vests legislative authority in the Parliament. The Parliament consists of the National Council of Provinces and the National Assembly. The people of South Africa elect the National Assembly to ensure government by the people under the constitution. The National Assembly chooses the nation's president. The person who is chosen from within the National Assembly is often the president of the party that received the most votes in the general election. The National Assembly also provides a national forum for public consideration of issues, passes legislation, and scrutinizes and oversees executive action. In juxtaposition, the National Council of Provinces represents the provinces to ensure that provincial interests are taken into account in the national sphere of government. It does this mainly by considering, passing, amending, and proposing laws and amendments in the national legislative process and by providing a national forum for public consideration of issues affecting the provinces.

The Constitution of the Republic South Africa vests executive authority in the president. The president is elected by the National Assembly and is both the head of government and the head of state. The executive implements national legislation except where the constitution or an act of Parliament provides otherwise. The president develops and implements national policy, coordinates the functions of different governmental departments and administrations, and performs any other executive function provided for in the constitution or in national legislation.

The Constitution of the Republic of South Africa vests judicial authority in the courts; these are independent and subject only to the constitution. The judicial system consists of the Constitutional Court, the Supreme Court of Appeal, High Courts, Magistrate Courts, and all other courts established or recognized by an act of Parliament. Judges at the national level are appointed by the president in consultation with the Judicial Service Commission and the National Assembly.

1. *The Constitution of the Republic of South Africa*, 15, <http://www.info.gov.za/documents/constitution/1996/a108-96.pdf>.

3. An expression of discontent with the ANC's foreign policy can be found in a recent opinion editorial by Tony Leon, a South African member of parliament for the opposition Democratic Alliance. See Tony Leon, "Obama era challenges SA to change its foreign policy," *Business Day* online, January 22, 2009, <http://www.businessday.co.za/articles/opinion.aspx?ID=BD4A923199>.

4. ANC, *Working Together We Can Do More*.

2 Background

“Rwanda is our nightmare, South Africa is our dream.”
—Wole Soyinka⁵

THE YEAR 1994 was extraordinary in sub-Saharan Africa for at least two reasons. In central Africa, the small country of Rwanda exploded into genocide. Mass violence left approximately 800,000 people dead.⁶ Millions were displaced, and the country’s economy collapsed. The oppressive, authoritarian regime of Juvenal Habyarimana fell, and a new national unity government took control.

At the southern end of the continent, another government changed. The oppressive, authoritarian regime of South Africa’s National Party (NP) ended—but not in the bloodbath that many predicted. Instead a new national unity government, led by Nelson Mandela, took office. The new government focused on reconciliation, undoing the harmful effects of apartheid, and maintaining and then strengthening the nation’s economy.

Since 1994 both countries have struggled with the difficult burdens of reconciling former enemies, improving economic opportunity for all citizens, and maintaining stability and security. While it is too early to tell if Rwanda has broken the cycle of mass violence that started in 1959, the country has started to see improvements in its economy. Today, in 2009, Rwanda is no longer a nightmare of African conflict. But is South Africa still an African dream, and, if so, for how long will it remain so?

Early History

SOUTH AFRICA IS a country of astonishing beauty and abundant natural resources. It is home to 48 million people. These millions are a diverse group of black Africans (including Zulu, Xhosa, Pedi, Tswana, Sotho, Tsonga, Swazi, Venda, and Ndebele), descendants of white settlers (including Eastern European Jews, Dutch, Germans, English and French), Indians, and colored people (mixed-raced individuals who descended from Malaysian and Indonesian slaves, whites, and Khoikhoi).

When the Dutch settled permanently in Cape Town in the seventeenth century, there were two major groups of

native peoples in South Africa: the Khoikhoi and various Bantu-speaking groups. Most native peoples farmed and raised livestock; a small minority, the Khoisan, lived in the bush as hunter-gatherers.

Although the Portuguese were the first to round the Cape of Good Hope, they did not establish a permanent settlement. Rather, it was the Dutch who established the first permanent settlement in what is now Cape Town in the early 1650s. This settlement allowed the Dutch to provision ships on the way to the East Indies with fresh water, meat, and other desirable supplies. Over time, the colony expanded, and Dutch farmers moved into areas controlled by the Khoikhoi. Conflicts over land and resources often ended violently, and the Dutch forced many Khoikhoi to work for them as laborers. In addition to the captured Khoikhoi, the Dutch also used imported slaves from Malaysia and Indonesia as laborers.

The Dutch colony continued to expand throughout the seventeenth and eighteenth centuries. White settlers would leave Cape Town for the drier, open spaces of South Africa’s fields. Eventually, these white farmers claimed most of the western half of today’s country, living a frontier existence not dissimilar to that of settlers in the American West.

Following several years of uncertainty and shifting sovereignty during the Napoleonic wars, British control over the Cape Colony was recognized in 1815. The British initially used the colony as a naval facility and provisioning base, but in 1820, they allowed several thousand British citizens to immigrate to the colony to farm lands in a disputed area between Dutch settlers and the Xhosa.⁷ As European settlements expanded in the late 1830s toward the northeast, new conflicts arose with the Zulu nation led by Shaka Zulu.

In 1835, the British declared slavery in the colony illegal. This declaration prompted some Dutch settlers (Boers), who came to be known as the Voortrekkers, to leave the colony. These settlers eventually created independent republics; however, throughout the nineteenth century they had to fight both native peoples and the British for control of the land they occupied. The fight intensified once diamonds were discovered near Kimberley in the late 1860s.

5. Wole Soyinka, quoted in John Reader, *Africa: A Biography of the Continent* (London: Penguin Books, 1998), 672.

6. *Ibid.*, 673.

7. For a further discussion of the history of conflict between the English settlers and the Xhosa, see Leonard Thompson, *A History of South Africa* (New Haven, CT: Yale University Press, 2000), 54–63.

By the late nineteenth century, these conflicts led to war. Although the Boers beat the British in 1880 in the First Boer War, they lost the Second Boer War. On May 31, 1910, the Union of South Africa was formed.

Increasing Inequality

THE GOVERNMENT IMPLEMENTED a series of segregationist legislation during the first half of the twentieth century. In 1913, the right of black South Africans to own land was severely abridged by the Natives' Lands Act. Other laws limited the right to vote for blacks and Indians (colored people could vote), severely limited job opportunities, created what became known as the "pass" laws (limiting the ability of black people to move freely around the country), and physically segregated blacks in urban as well as rural areas. In addition, laws restricted black South Africans' ability to own more than one business and to create partnerships or form corporations. Before 1976 (when the government partially liberalized the economy), black firms could only operate in a small number of sectors (mainly retail sales). Taken together, this web of legal restrictions substantially reduced the scope and scale of black entrepreneurship.⁸ Pixley Seme founded the ANC in 1912 to oppose such discriminatory policies.⁹

In 1948, the pro-Afrikaner NP was elected (the Afrikaners are descendants of the Dutch/Boers). This government extended and intensified the discriminatory legislation enacted by earlier South African governments, creating the policy known as apartheid. Between 1960 and 1990, this government banned the ANC and other mainly black opposition political organizations. The government put ANC leaders and other political opponents in jail; many others left the country. Protests against the government's policies often turned violent, as in the Sharpsville uprising in 1960.¹⁰

As violence rose and international pressure increased throughout the 1980s, the National Party government

eventually began negotiations with opposition parties to form a new government.¹¹ In 1990, President F. W. de Klerk legalized the ANC and other anti-apartheid groups. Nelson Mandela was released from prison that same year.¹² From 1990 to 1993, a series of negotiations set the stage for elections in 1994. This included a referendum in 1992 asking white voters whether apartheid should be dismantled. A majority voted in favor of ending the system. Finally, in 1994, the ANC won parliamentary elections and created a National Unity government in partnership with the National Party and the Inkatha Freedom Party. That year, the country elected Nelson Mandela as its first black president.

In the years since 1994, South Africa has traveled a difficult road. Repealing discriminatory legislation was relatively easy. Undoing the effects of this discriminatory legislation has proved much more difficult. High levels of poverty and unemployment, a struggling educational system, and urbanization have all combined to make life very difficult for many of the nation's black citizens. Under the leadership of Thabo Mbeki, elected president in 1999, the government created an affirmative action program to provide greater economic opportunity for black South Africans, and today there is a growing black middle class. However, crime rates remain high, and many South Africans are discouraged by how little progress has been made toward alleviating poverty in this resource-rich nation.

Recent Developments

AT ITS FIRST session after the general election in April 2009—called every five years—the National Assembly of the South African Parliament will meet to select an individual from among its members to be the president of South Africa. It will do so following what undoubtedly will have been an election that provided South Africa with its toughest challenge since the country became a democracy in 1994.

8. Stephen Gelb, "Inequality in South Africa: Nature, Causes, and Responses" (forum paper, African Development and Poverty Reduction: The Macro-Micro Linkage, 2004), 29, http://www.commerce.uct.ac.za/Research_Units/DPRU/DPRU-Conference2004/Papers/Gelb_Inequality_in_SouthAfrica.pdf.

9. For more on the ANC's early history, see <http://www.anc.org.za/ancdocs/about/umzabalazo.html> and <http://www.anc.org.za/ancdocs/90th/index.html>.

10. In 1960, 70 black protesters were killed during a peaceful demonstration in Sharpsville.

11. In his excellent history of Africa, John Reader argues that apartheid ended because it was no longer affordable. See John Reader, *A Biography of the Continent*, 674–75.

12. Mandela had been held on Robben Island, a prison for political prisoners located near Cape Town. He was transferred to Pollsmoor Prison in 1982, to Victor Verster Prison in 1988, and released in 1990. See "Mandela's Release," http://www.capetown.at/heritage/history/newSA_mandela.htm.



South Africa has now entered the second phase of its democratic political transition. The first phase, presided over by Nelson Mandela, dismantled apartheid, reconciled race relations, and established a working democracy. Now, the country is moving into a new era of pluralist democracy, where criticism and dissent are permitted.¹³

The person who is chosen from within the National Assembly is often the president of the party that received the most votes in the general election. In three previous elections, the president of the ANC became the president of South Africa—Nelson Mandela in 1994 and Thabo Mbeki in 1999 and 2004. For this reason, the battle for the top of the ANC is crucial. The ANC's president is chosen at its national convention, where all the delegates from the party join and vote. On December 17, 2007, Jacob Zuma was elected the twelfth president of the ANC,¹⁴ ousting then-current President Mbeki during the Polokwane Indaba.¹⁵

This was a watershed moment for the ANC. The selection was representative of the culmination of internal and external dissatisfaction among the ANC members and the general public with the manner in which the Mbeki administration had conducted its affairs. Critics believed

that President Mbeki was too business-friendly and had deviated from the philosophical leftist core of the ANC; they believed it was time for a revival. Parts of the ANC—together with the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU)—were, among other things, unhappy with the Mbeki government's economic policies. They wanted policies that would promote greater economic equality.¹⁶

The period following the Polokwane Indaba proved to be a difficult one for President Mbeki. Notwithstanding the troubles he encountered as the mediator in the Zimbabwe crisis, the ANC's National Executive Committee—largely made up of Zuma allies—called for Mbeki's resignation in the interest of moving the country forward. President Mbeki decided that he would step down to avoid any further tension within the ANC. He officially resigned from office on September 20, 2008, and was replaced by interim President Kgalema Motlanthe.¹⁷ Two days after Mbeki announced that he was departing, the deputy president and ten ministers followed suit by resigning from their positions, creating even more uncertainty over the forthcoming election and the future stability of South Africa.

13. See a similar argument in "South Africa's Awful Election," *The Economist*, December 13, 2007.

14. Parties hold private primaries where delegates vote for the president of the party.

15. *Indaba* is Zulu for a large gathering or meeting and is here used to describe the ANC's convention, where it elected the president of the party for the forthcoming election. Primaries are held privately in South Africa.

16. See "Mbeki vs. Zuma: the Showdown," *The Economist*, December 13, 2007.

17. This cut his term short as President Mbeki was supposed to remain in office until the general election in April 2009.

The Mbeki resignation exacerbated tensions within the ANC as the Zuma and Mbeki factions came into confrontation yet again. As a sign of their frustration with the new leadership of the ANC, former Defense Minister Mosiuoa Lekota and the premier of the Gauteng Province, Mbhazima Shilowa, decided to break away from the ANC and form a party with former Mbeki supporters and other discontented members. The breakaway faction called a national convention in November of last year to communicate to the South African public the ideals and values of the newly created party, COPE. The new party launched on December 16, 2008 to contest the 2009 elections, breaking the hegemonic position of the ANC in South African politics.

The political landscape in South Africa has, therefore, changed significantly over the past two years. The change in ANC leadership reflects a leftward shift in the party's ideology, toward a more socially liberal and interventionist approach to the economy. The split in the party also represents real dissatisfaction with this leadership. One way to view the new political landscape is that South African politics has moved away from race politics and toward class politics. South Africa's voters may now pay less attention to the race or ethnic group of particular candidates and more attention to what the economic policies of the political parties mean for voters' socioeconomic conditions.

The next section focuses on three vital domestic policy issues that the new government must address effectively if it wishes to aid South Africa's poor: improving employment opportunities, improving education, and improving the security environment. The ANC "Manifesto" also identifies these issues as key objectives for a new government.

These three issues are not a complete list of the pressing domestic policy concerns in South Africa. We focus on these three issues because, for better and for worse, they so strongly influence each other. Effective policy changes in these areas could lead to widespread social improvements. For example, to the extent that the climate for doing business in South Africa improves, employment opportunities would expand. Increased employment opportunities should alleviate some of the problems

that drive violent crime and might also provide South Africans with incentives to learn new skills and improve existing ones. If educational alternatives exist to meet the demand for training and skills-building, more South Africans should become more productive. More productive workers are more attractive job candidates. This symbiotic relationship between education, employment, and security is why we focus on these three issues.

3

Domestic Policy: Increasing Opportunity for South Africa's Poor

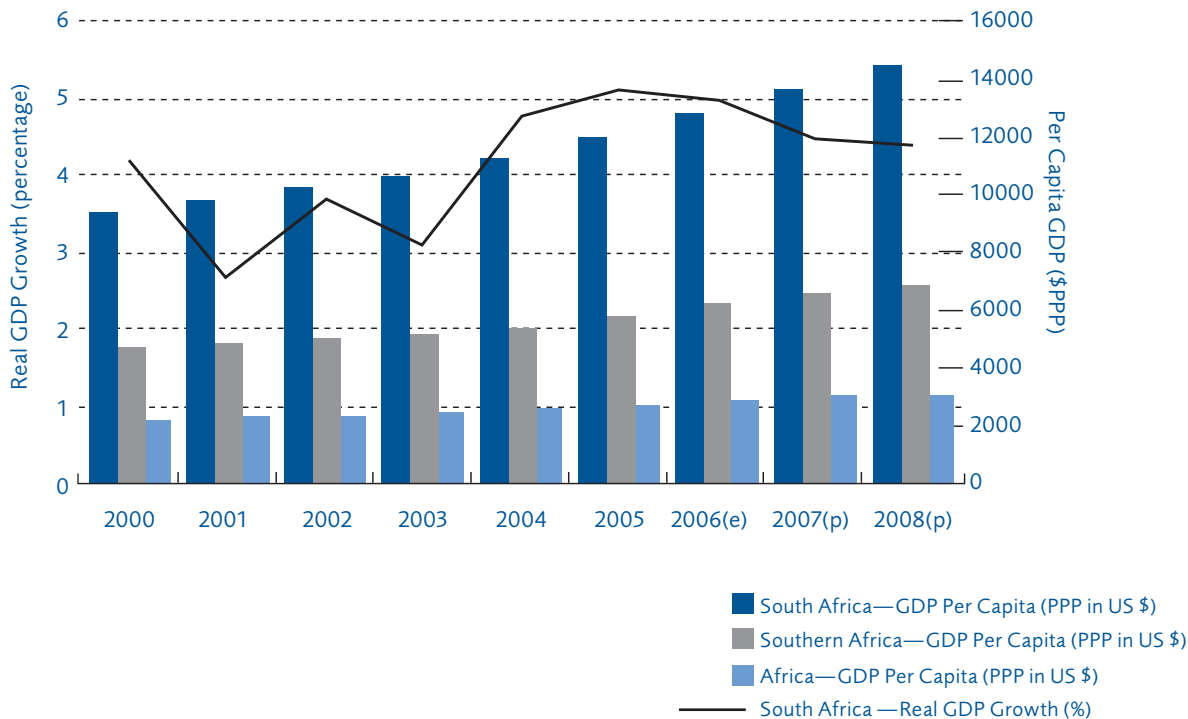
SOUTH AFRICA IS at a crossroads. The country has successfully transitioned from an oppressive, racist regime to a multi-ethnic democracy and remains the economic powerhouse of the African continent. It has a strong economy with recent growth rates ranging between 3 and 5 percent per annum. These strengths may suffice to ensure further economic growth and a deepening of the broadly participatory democratic practices of the past fourteen years.

But there is reason for concern. Despite the country's recent good economic growth rates (see figure 1), serious issues threaten the nation's continued development. High levels of poverty, an increasing gap between the rich and poor,¹⁸ unemployment rates over 20 percent, poor municipal service delivery, poor educational outcomes, and high crime rates are some of the more pressing domestic concerns. With a continuing foreign policy crisis at its doorstep in Zimbabwe and with unrealized opportunities to expand entrepreneurial opportunities for its citizens through trade, South Africa also faces important challenges in the international arena.

Each of the parties contending in the upcoming elections faces a crucial domestic policy issue: What can be done to increase economic opportunity for the poor? The answer lies in understanding that economic opportunity will come from creating an environment that supports entrepreneurship, which, in turn, increases economic growth.

18. Income inequality in South Africa has remained high and relatively static post-apartheid. However, these figures hide an interesting development. Black South Africans remain the poorest group of South Africans; however, intra-racial inequality has increased while inter-racial inequality seems to have declined. Gelb, "Inequality in South Africa: Nature, Causes, and Responses," 5.

FIGURE 1: REAL GDP GROWTH AND PER CAPITA GDP (\$ PPP at current prices)



(Source: OECD, *African Economic Outlook 2007*, 487)

Increasing Opportunity through Expanded Employment Options

OVER THE PAST fourteen years, South Africa has suffered from persistent, high levels of unemployment (see figures 2 and 3). Unemployment rates are especially high among rural citizens, the young, the less educated, women, and black South Africans. People who fail to find work once they graduate from secondary school tend to remain unemployed for long periods.¹⁹ South Africa’s economic

growth over the past five years does mean that more people are working now than in the past. However, too few formal-sector²⁰ jobs are going to the poorest workers, those making less than R2,500 per month (approximately \$312/month or just over \$10/day). This category represents 65 percent of workers; 39 percent of workers earn less than R1,000 per month.²¹ Moreover, real wages for many workers have fallen.²² These figures raise two issues of concern. First, there is large supply of low-

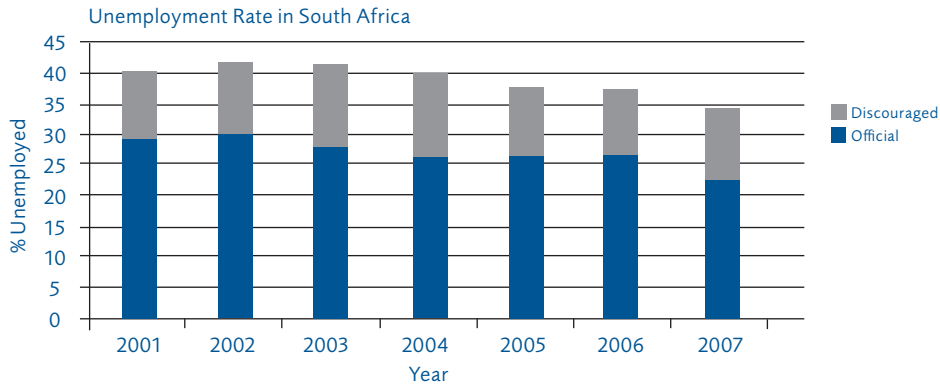
19. Isobel Frye, *Poverty and Unemployment in South Africa*, National Labor and Economic Development Institute (2006), 2, <http://www.naledi.org.za/docs/Poverty%20and%20unemployment%20in%20South%20Africa%20Feb%202006.pdf>.

20. The formal sector is that part of a nation’s economic activity that complies with legislative and regulatory rules and obligations. It may involve small, medium, or large-scale business organizations and so may employ very few people (as with sole proprietorships) or a great many people (as with multinational corporations). The formal sector is a relatively small percentage of the economy in most developing nations, but is a large percentage of the economy in most developed world nations. The informal sector, conversely, is composed of mostly small-sized businesses that employ few people, have limited access to capital, pay low and erratic wages, and that do not comply with legislative and regulatory requirements (licensing requirements, labor regulations, and tax obligations are often not followed by informal-sector businesses). Other names for the informal sector include the shadow economy, the unofficial economy, or the underground economy. See Diego Rei and Manas Bhattacharya, “The Impact of Institutions and Policy on Informal Economy in Developing Countries: An Econometric Exploration” (working paper no. 84, International Labor Organization, 2008), 1, http://www.ilo.org/wcmsp5/groups/public/---dgreports/---integration/documents/publication/wcms_094086.pdf.

21. Miriam Altman, *Evidence-based Employment Scenarios* (Pretoria, South Africa: Human Sciences Research Council, August 2007), 5, <http://www.hsrc.ac.za/CCUP-62.phtml>.

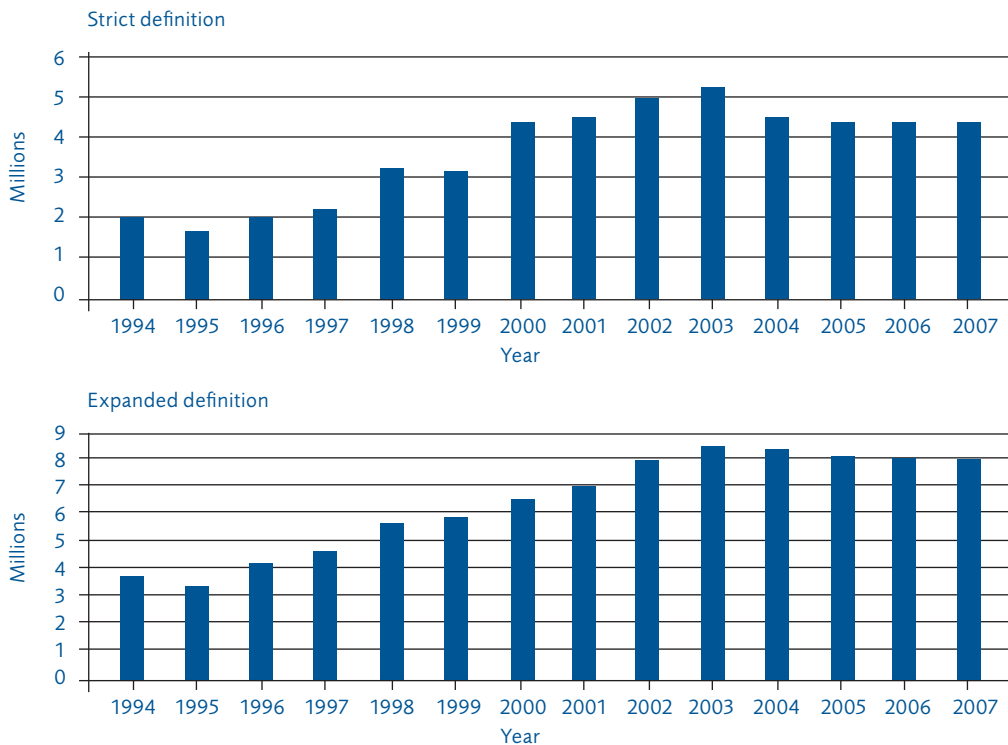
22. Altman notes that “low skill employment expanded dramatically, but wages did not. On average across the economy, real wages did not rise for low and semi-skilled workers between 1997 and 2005.” *Ibid.*, 5.

FIGURE 2: PERCENTAGE UNEMPLOYED SINCE 2001



Note: A discouraged worker is a person of legal employment age who is not actively seeking employment. Source: Constructed by authors from Labor Force Survey data obtainable from <http://www.statssa.gov.za>.

FIGURE 3: NUMBER OF UNEMPLOYED (STRICT AND EXPANDED DEFINITIONS), 1994–2007



Source: The South African Institute for Race Relations, <http://www.sairr.org.za>.

skilled workers. Second, for a variety of reasons, the formal sector has little demand for low-skill workers.

With unemployment rates over 20 percent for years (close to 35 percent under a broader definition),²³ the

government faces an enormous challenge: how to lower this figure so that more of South Africa's poor find gainful employment rather than being forced to look for work in the informal sector. This task must be at the top of any domestic policy agenda in the country. The harmful

23. There are two categories of unemployment in South Africa. Under the strict definition, individuals between the ages of 16 and 65 who are actively searching for a job but are unable to find one are considered unemployed. The second category of unemployment is the broad definition, which adds into the strict count those workers who have become discouraged and who are not currently actively seeking employment but who nonetheless have no formal-sector job.

effects of unemployment are broadly disempowering and impose significant social costs on society.

In its 2004 election “Manifesto,” the ANC government planned to halve the rate of unemployment and poverty in the country by 2014.²⁴ This would have meant lowering unemployment from approximately 26 percent in 2004 to 13 percent by 2014, which, in turn, would mean creating more than 2 million new jobs between 2004 and 2014.²⁵

The unemployment rate has fallen since 2004 from 26 percent to a recent low of just under 22 percent.²⁶ However, millions remain out of work. Addressing this challenge, the ANC, in its current “Manifesto,” adopts a strategy of state-led industrial policy and “massive public investment” in order to spur job creation. The party’s plans for increasing the number of jobs for South Africans include expanding public-sector employment and public-works programs; providing government support to particular industries such as mining, tourism, and agriculture; developing green jobs; and implementing a new wage subsidy for a subset of potential employees.²⁷ It also pledges to ensure decent work for all by further regulating contract work, subcontracting work, and outsourcing; facilitating unionization and collective bargaining agreements; vigorously implementing economic empowerment and affirmative action policies; and ensuring “the right to permanent employment for affected workers.”²⁸

The deep structural unemployment problems in the South African economy stem from three basic causes:

- problems related to the discriminatory apartheid policies (low-quality education, dislocation from employment opportunities, and associated high search costs)
- a substantial increase in labor force participation (due to more black South Africans—women in particular—entering the labor market)²⁹
- labor regulations that make it difficult and costly for formal-sector employers to hire and fire workers (high formal-sector wage rates that reflect bargaining demands of unionized workers that increase the costs of employing low-skilled workers)³⁰

As noted earlier, the highly discriminatory legislation passed by pre-ANC governments severely limited economic and political opportunities for black, Indian, and colored citizens. Most black South Africans were shunted into jobs in the mines, domestic work, or other low-skill occupations. Furthermore, these policies forced black South Africans to live in urban townships far from city centers or in rural homeland areas that had limited economic opportunity. Add to this the poor education the apartheid governments provided to black citizens, and the results are not surprising: poorly educated citizens who lived far from many employment opportunities and who could do little to add to or improve their skills.³¹

While unemployment rates may have been near 15 percent at the end of the apartheid era, even with legal disabilities removed and recent economic growth, unemployment rates in South Africa appear to be much higher than they were in the past.³² High levels of unemployment reflect, in part, labor market rigidities. In the mid-1990s, three

24. See ANC, *We Must Now Get Down to Work*, 2004 Manifesto, <http://www.anc.org.za/elections/2004/index.html>.

25. Altman, *Evidence-based Employment Scenarios*, 3–4.

26. Melanie Bowler and Ruth Stroppiana, “Unemployment rate falls unexpectedly,” *Moneyweb*, March 6, 2009, <http://www.moneyweb.co.za/mw/view/mw/en/page662?oid=277967&sn=Detail/>. This story notes that while the rate fell unexpectedly, lower figures can be attributed to job creation in the construction and manufacturing sectors coupled with a rise in the number of discouraged job seekers. While 189,000 jobs were added in the fourth quarter of 2008, nearly 100,000 people were so discouraged by job searching that they gave up.

27. ANC, *Working Together We Can Do More*.

28. *Ibid.*

29. Abhijit Banerjee, Sebastian Galiani, Jim Levinsohn, and Ingrid Woolard, “Why Has Unemployment Risen in the New South Africa?” (working paper no. 134, Center for International Development, Harvard University, 2006), 13, <http://www.cid.harvard.edu/cidwp/pdf/134.pdf>: “[Black South] Africans increased participation rates by approximately 10 percentage points from 1995 to 2005 and their unemployment rate increased by about 50%. Clearly, many of the new entrants to the labor market were not finding jobs.”

30. James Levinsohn, “Two Policies to Alleviate Unemployment in South Africa” (working paper no. 166, Center for International Development, Harvard University, 2008), 10, <http://www.cid.harvard.edu/southafrica/index.html>.

31. Frye, *Poverty and Unemployment in South Africa*, 5.

32. Statistics from the apartheid era are regarded by most scholars as problematic, and this 15 percent figure should be taken as a rough approximation; the actual level of unemployment may have been higher. Levinsohn, “Two Policies to Alleviate Unemployment in South Africa,” 1.

laws were passed to protect workers: the Labor Relations Act, the Basic Conditions of Employment Act, and the Employment Equity Act.³³ These laws redress some of the inequalities created under the apartheid-era governments, but they also impose on employers obligations that raise the costs of employing people, such as four-month maternity leaves, three-week annual vacations, and a month-long notice period for firing workers.³⁴

Larger businesses may be better able to absorb the costs associated with these regulations than smaller businesses are. While a 1998 paper by Peter Fallon and Robert Lucas on changes to South Africa's labor markets argues that these changes are within international norms and are unlikely to raise costs substantially,³⁵ a later paper in the same series points out that the impact of this legislation may be to create an impression of labor market inflexibility—even if it is difficult to quantify the costs of this legislation for individuals or organizations.³⁶

One indication that employers view South Africa's labor market as rigid comes from the World Bank. In 2008, South Africa's ranking in the World Bank's *Doing Business* report rose from 35 to 32 out of 181 countries.³⁷ However, the country's score in terms of employing workers fell six spots in the ranking from 96 to 102. The country's score for "difficulty of hiring" is the lowest ranking in this category.³⁸

Why do problematic labor policies remain in place? The current South African government is a tripartite alliance of the ANC, the COSATU, and the SACP. ANC officials have, at best, limited incentives to remove these labor

regulations because their coalition partners prefer these regulations. Union officials prefer labor regulations that protect their members and that limit competition from other, lower-wage workers. Because ANC officials prefer to retain political power, they trade union members' labor protection for political loyalty from their partners. Unfortunately, weaker parties³⁹ (the non-unionized, the poor, and rural dwellers) must accept the status quo while more politically powerful parties actively seek and obtain political largesse.⁴⁰

Political alliances in South Africa explain the persistence of poor labor policies in the country, even in the face of extremely high unemployment rates. Indeed, as noted in a recent report by James Levinsohn, the high wages that unions negotiate contribute to the unemployment problem in South Africa.⁴¹ These wage rates (coupled with sectoral minimum wages) affect non-union wages, raising them to unacceptable levels (for formal-sector employers). Union members benefit from relatively high-paying work, but this high pay contributes to high unemployment rates among those citizens who are not union members.

Low-skilled workers, particularly youth and women, find it difficult to locate jobs. They face high search costs because they live far from employment opportunities; they lack desirable experience; and they may rely, for financial support, on family members who receive old-age pensions. Incentives to look for formal sector work are limited. Moreover, employers may be unwilling to pay relatively high wages (set by minimum wage laws and bargaining agreements for many workers) to people who often lack useful skills. For employers, par-

33. See *The Labor Relations Act of 1996*, <http://www.info.gov.za/view/DownloadFileAction?id=70883>. See also *The Basic Conditions of Employment Act of 1997*, <http://www.info.gov.za/view/DownloadFileAction?id=70820>, and *The Employment Equity Act of 1998*, <http://www.info.gov.za/view/DownloadFileAction?id=70714>.

34. These provisions are contained in the Basic Conditions of Employment Act. The Labor Relations Act extends the notice period and specifies compensation amounts for workers who are fired.

35. Peter Fallon and Robert Lucas, "South African Labor Markets Adjustment and Inequalities" (discussion paper no. 12, The World Bank Southern Africa Department, 1998), http://www.essa.org.za/download/wb/Fallon_Labor_DP12.pdf.

36. Jeffrey D. Lewis, "Policies to Promote Growth and Employment in South Africa" (discussion paper no. 16, the World Bank Southern Africa Department, 2001), 15, http://www.essa.org.za/download/wb/Lewis_Growth_DP16.pdf.

37. The *Doing Business* report, published by the World Bank, provides measures of business regulations and their enforcement across 181 economies and selected cities at the subnational and regional level. For more information on this project, see http://www.doingbusiness.org/documents/DB09_About.pdf.

38. South Africa ranks 56 out of 100. The higher the score, the more rigid the labor regulations. So, for example, South Africa ranks 40 out of 100 in terms of rigidity of hours. See, "Employing Workers in South Africa," <http://www.doingbusiness.org/ExploreTopics/EmployingWorkers/Details.aspx?economyid=172>.

39. For a discussion of this dynamic, see Bruce Bueno De Mesquita and Hilton Root, "When Bad Economics is Good Policy," in *Governing for Prosperity* (New Haven CT: Yale University Press, 2000).

40. *Ibid.*, 4.

41. Levinsohn, "Two Policies to Alleviate Unemployment in South Africa," 10.

ticularly small businesses, the cost of labor is too high. Because it is costly to employ low-skill workers, many businesses face difficult choices: either pay these high costs and reduce profitability or remain small and forego opportunities to grow the business.

Taken together, these realities contribute to the high levels of unemployment among certain groups of South Africans, particularly blacks, the young, women, and rural dwellers.⁴² After the creation of the new national unity government in 1994, South Africans hoped for increased economic opportunity. Sadly, for too many, this hope remains unfulfilled. Rather than finding gainful employment in the formal sector of the South African economy, many of the young and the poor, as well as many women, are forced into the informal sector as necessitous entrepreneurs. They run small spaza (grocery) shops from their homes, sell cell phone cards, or hawk clothing or vegetables on the street. This lack of employment opportunity contributes to a variety of social ills and played a part in the xenophobic violence that shook South Africa in 2008 (see “Killing the Competition”).

Confronting Problems in the Education System

UNDER ITS PRE-1994 government, South Africa developed a bifurcated education system. The system catered to white students and their needs while leaving black, colored, and Indian students in second- or third-class schooling environments with poor facilities, overwhelmed teachers, and little in the way of financial support.⁴³ As South African economist Stephen Gelb writes:

Even after per capita spending increased from the mid-1970s, educational outcomes for Africans were still poor. In 1989 the African pupil:teacher ratio was 38:1 compared with 17:1 for whites while 52% of the teachers in the African school system were underqualified. Not surprisingly, Africans' pass rate for the school-leaving exam was 41% compared with 98% for whites.⁴⁴

42. Banerjee et al., “Why Has Unemployment Risen in the New South Africa?,” 11–12, 17.

43. For example, the 1953 Bantu Education Act placed important elements of control of education for black South Africans into the hands of the national government and away from provincial councils, but it also removed significant control from private education providers, such as mission schools. Funding for the separate black schools was, under the terms of this legislation, based on the acceptance of a racist curriculum. Many mission schools chose to close rather than accept funding on these terms. Thus, black students faced the choice of no school or school in a racist government school. See Overcoming Apartheid, “Bantu Education,” <http://overcomingapartheid.msu.edu/sidebar.php?id=3>.

44. See Stephen Gelb, “Inequality in South Africa: Nature, Causes and Responses,” 21. In a paper from 1999, Anne Case and Motohiro Yogo found pupil:teacher ratios in black schools as high as 80:1 in the period immediately following the transition of 1994. See Anne Case and Motohiro Yogo, “Does School Quality Matter? Returns to Education and the Characteristics of Schools in South Africa” (working paper no. 7399, National Bureau of Economic Research, 1999), 5, http://www.princeton.edu/~accase/downloads/Does_School_Quality_Matter.pdf.

45. See also *South African Schools Act of 1996*, preamble, <http://www.info.gov.za/acts/1996/a84-96.pdf>.

KILLING THE COMPETITION

A wave of violence washed across South Africa in May of 2008. Rioters attacked hundreds of people, scores of whom were killed in South Africa's poor neighborhoods. Many of the victims were Zimbabweans who fled their homeland to escape Robert Mugabe's tyrannical and economically disastrous rule. A few were Somalis who were also looking for opportunities that do not exist in their war-torn country. To quell the violence, then-President Thabo Mbeki was forced to call out the military to support an overwhelmed police force.

The anti-immigrant violence embodies the xenophobic anger among South Africa's poor. Impoverished South Africans see the newcomers as unwelcome competitors for scarce jobs and other resources. A report from Msnbc.com quoted Leyton Salaman, a Malawian immigrant to South Africa who witnessed the violence: “These people [the attackers], they said, ‘You are taking our jobs . . . now they just come and take our things.’”¹

On May 19, 2008, the International Herald Tribune noted that this violence, perpetrated by the poor against the poor, “underscored bitter frustration with the government's failure to deliver jobs, housing and schools.”²

1. “Anti-foreigner violence spreads in South Africa,” AP, May 19, 2008, <http://www.msnbc.msn.com/id/24705508/>.

2. “More than a score killed in anti-foreigner violence in South Africa,” AP, May 19, 2008, <http://www.ihf.com/articles/2008/05/19/africa/saf.php>.

Further, beginning in the 1950s, the apartheid government barred blacks from admission to national universities. The change in government in 1994 provided an opportunity to address these historic distortions.

The 1996 Constitution of the Republic of South Africa guarantees a basic right to education for all citizens and requires that education be more democratic, non-racist, non-sexist, and meet the needs of adult learners.⁴⁵ Legislative changes attempt to address the gap between urban and rural schools and between historically white and

black schools. These changes make schooling compulsory between the ages of seven and fifteen,⁴⁶ and they create a centralized approach to meeting educational needs, including funding and curriculum needs.⁴⁷

Education in South Africa is not, and has traditionally never been, a local government responsibility.⁴⁸ The national government is responsible for higher education and creates national education goals. Provincial governments implement policies in primary and secondary schools to meet these national education goals.⁴⁹ This arrangement is common among developing nations but may not be well suited to meet the needs of students in these countries. As a Center for International Development (CID) paper points out, “Given the heterogeneity in educational background, school quality and language within many developing countries, designing a single curriculum appropriate for all students is difficult for any country.”⁵⁰ This report argues that a centralized curriculum, like the one in South Africa, contributes to poor performance for many students and to high drop out rates.

Since 1994, the government has developed a complex set of education policies designed to improve the sector.⁵¹ Unfortunately, research suggests that education policy in South Africa tends to create confusion among educators. It is also often difficult and expensive to implement policies designed to promote greater equality of educational outcomes, especially in rural areas, where attracting teachers and securing adequate funding and resources can be quite difficult. As a result of this complex policy environment, teachers in South Africa spend more time complying with assessment, planning, preparation,

recording, and reporting requirements associated with the government’s outcome-based education policies. As a report on educator workloads in South Africa notes,

The vast majority of educators experience multiple, complex and constantly changing requirements in their teaching and learning contexts as an unbearable increase in workload. Class size and diversity of learning needs in classrooms often seem to make it virtually impossible to meet teaching and additional requirements adequately. The evidence shows that the major casualty of policy overload and class size is the time that educators are able to devote to their core work, teaching.⁵²

The result is often increased job dissatisfaction.⁵³

In 2007, South Africa spent just over 5 percent of its GDP, or R105.5 billion, on education.⁵⁴ Teachers and administrators are provincial-level employees, and their wages are set through a collective bargaining process. There are over 350,000 employees in the public-education sector; teachers are the largest occupational group in the country. Teachers earn more than most other employed people in South Africa; perhaps this is not surprising given that 88 percent of teachers are members of a union.⁵⁵ The percentage of the South African education budget devoted to personnel expenditures has been as high as 90 percent (in the late 1990s), but has fallen over the past several years to closer to 80 percent.⁵⁶ There are, nonetheless, looming teacher shortages in the country, and the student-to-teacher ratio in public schools is over 30:1.

46. For a discussion of the ill consequences of compulsory education laws and the positive role educational entrepreneurs can play in a society, see Eustace Davie, *Unchain the Child: Abolish Compulsory Schooling Laws* (Cape Town: Free Market Foundation, 2005).

47. See Organization for Economic Co-operation and Development, *Reviews of National Policies for Education, South Africa*, (Paris: OECD, 2008), 38–41, http://www.fedusa.org.za/pdfdocs/Reviews%20of%20National%20Policies%20for%20Education_South%20Africa.pdf.

48. Individual school governing bodies, composed of parents, teachers, and administrators within individual schools, do have important powers and responsibilities, including setting admissions policies, recommending staff appointments, overseeing facilities, and creating the school's budget—which can involve setting school fees. See *South African Schools Act* sections 16–22, and also OECD, *Reviews of National Policies for Education*, 88.

49. OECD, *Reviews of National Policies for Education: South Africa*, 39.

50. Paul Glewwe and Michael Kremer, “Schools, Teachers and Education Outcomes in Developing Countries” (working paper no. 122, Center for International Development, 2005), 10, <http://www.cid.harvard.edu/cidwp/pdf/122.pdf>.

51. *Ibid.*, 38–41.

52. Linda Chisholm, Ursula Hoadley, Mbithi wa Kivulu, Heather Brookes, Cas Prinsloo, Asnath Kgobe, Dan Mosia, Hersheela Narsee, and Stephen Rule, *Educator Workload in South Africa* (Cape Town, South Africa: Human Science Research Council Press, 2005), x.

53. *Ibid.*, ix–x.

54. OECD, *Reviews of National Policies for Education*, 24.

55. *Ibid.*, 83.

56. *Ibid.*, 43, 104.



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Despite a strong focus on improving education in the country, results to date have been disappointing. While more young people are attending school, “learners’ levels of achievement in South Africa are not commensurate with the financial investment being made.”⁵⁷ Achievement rates for students in grades 3 and 6 in language arts, mathematics, and natural science are all low, and the scores of South Africa’s public-school students are worse than those of a number of African nations, including poor nations such as Niger, Mali, and Senegal.⁵⁸ Many students in grade 11 repeat the grade before taking the senior year exam, the Senior Certificate Exam (SCE). In their 2004 book on South African education reform, researchers Edward Fiske and Helen Ladd note, “South African learners perform abysmally on international comparisons.”⁵⁹ While more students have access to schools (even to the best-funded/least-poor schools), many of these students are not learning effectively.⁶⁰

While some progress has been made in bringing more students, male and female, into schools; creating “centers of excellence;” and increasing adult literacy rates, it remains a huge task to improve the educational experi-

ence and the quality of instruction in South Africa’s classrooms. If South Africans, particularly poor South Africans, don’t receive adequate educations, it is unlikely that South Africa will ever be able to address the problems of poverty effectively. If prospective employees continue to lack skills and training, formal-sector employers might still be unwilling to hire them—even with proposed monetary incentives such as a wage subsidy.

The education problem in South Africa is large. Poor educational attainment translates into lower incomes for students and more persistent poverty.⁶¹ One cannot help but imagine that an important part of the problem facing South Africa’s educational system is a complex policy environment that makes it difficult for teachers to teach and meet the needs of students. While the system has a fair amount of financial resources devoted to it, policy complexity, large class sizes, difficulties attracting teachers to rural schools, and other social problems contribute to low student achievement. This suggests that administrators, parents, and teachers all need greater flexibility and greater independence from the rigidities of a national curriculum and a national certification framework. If, as

57. *Ibid.*, 52.

58. *Ibid.*, 54.

59. Edward B. Fiske and Helen Ladd, *Elusive Equality: Educational Reform in Post-Apartheid South Africa* (Washington, DC: Brookings Institution Press, 2004), 233.

60. *Ibid.*

61. *Ibid.*, 11–12.

the Organisation for Economic Co-operation and Development (OECD) report suggests, current investments in public-sector education are not paying appropriate dividends, should these investments continue? Is good money being thrown after bad?

Improving Security for South Africa's Citizens

SOUTH AFRICA HAS one of highest crime rates of any country in the world. To take just one—albeit dramatic—figure, approximately fifty people a day, 365 days a year, are murdered in South Africa. Robbery rates are much higher than in the United States, as are rates for rape and breaking-and-entering.⁶² A recent news report notes that only countries at war suffer as much sexual violence as does South Africa.⁶³ The impact of these high crime rates, and particularly violent crime, is substantial. Economic growth is lower than it otherwise would be: people with skills leave the country to look for work in more peaceful places,⁶⁴ businesses invest less in human and other capital than they otherwise would, and businesses and individuals spend money preventing crime (purchasing security services, irons bars for windows, etc.) rather than investing it or using it to improve property or skills.⁶⁵

The new government in South Africa will face the continuing challenge of how best to deal with this almost intractable problem. Like unemployment and an ineffective educational system, the problem of crime in South Africa is not new. Each government since 1994 has had to address the issue. While successive governments have adopted different strategies in an attempt to reduce crime, the problem remains. While lower than they were in 2000,⁶⁶ crime rates remain stubbornly high

today. This means that South African entrepreneurs and foreign investors have disincentives to start, invest in, expand, or improve businesses. It also means lives are needlessly lost and the citizenry suffers physical and psychological damage.⁶⁷

Given these difficulties, what should a new government's crime policy include? In a working paper prepared as part of a review of South African government policy by a panel of economists and international experts, Christopher Stone, a professor of criminal justice at Harvard's Kennedy School of Government, argues that through repeated experimentation, policy makers are better able to implement successful small-scale crime prevention strategies and improvements to the justice system. Once identified, officials can expand successful strategies and terminate programs that failed.

He suggests experimenting with concentrating crime-prevention efforts on those businesses most likely to spur economic growth.⁶⁸ He hopes this effort would prevent crime and lower the costs that formal-sector businesses incur to cover direct losses from crime. Further, he recognizes that informal, home-based businesses are an important source of financial stability for poor families. Unfortunately, in South Africa, many small-scale entrepreneurs cope with a variety of violent or potentially violent criminal activities.⁶⁹ Crime-prevention efforts might be focused toward protecting these entrepreneurs.

Even if the South African police force is able to lower some crime rates, citizens continue to perceive violent crime (carjacking, armed robbery, rape, murder) as a serious threat to their well being. Changing perceptions requires effective communication between the various

62. Christopher Stone, "Crime, Justice and Growth in South Africa: Toward a Plausible Contribution from Criminal Justice to Economic Growth" (working paper no. 131, Center for International Development, Harvard University, 2006), 5–7, <http://www.cid.harvard.edu/cidwp/pdf/131.pdf>.

63. "S. Africa ranks among war-torn countries in rape," Agence France Press, March 5, 2009, http://www.google.com/hostednews/afp/article/ALeqM5ilWf1rTe2WLXilV_-jOImNDCIFQ.

64. In a May 2007 survey conducted in South Africa among young, black, urban respondents, 67 percent said they would seriously consider leaving the country because of concerns related to crime. See *The Impact of Crime on Small Businesses in South Africa: A study commissioned by the South African Presidency* (Johannesburg: Small Business Project, July 2008), 22, <http://www.info.gov.za/view/DownloadFileAction?id=85235>.

65. Stone usefully points out that many of these connections, while plausible on their face, lack a firm evidentiary basis.

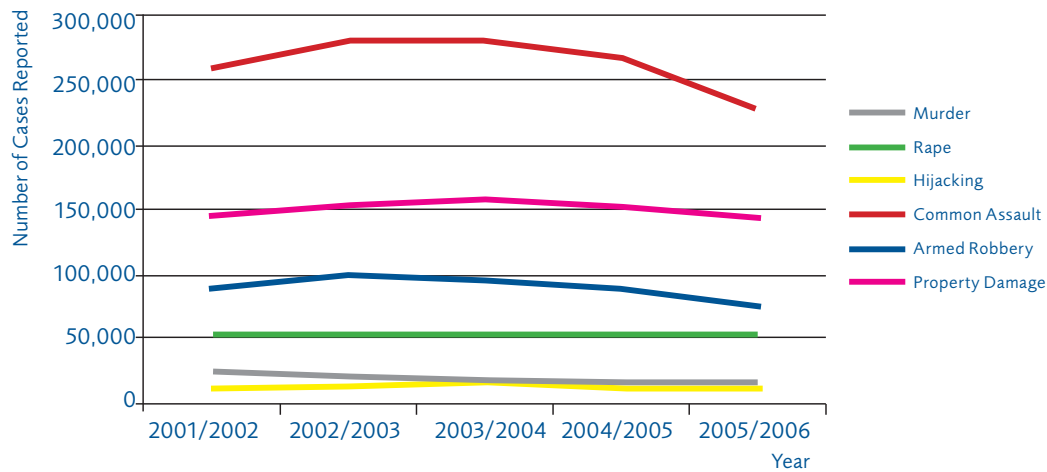
66. *Ibid.*, 4. Noting that victimization rates, based on 2003 data, were lower than they had been in the late 1990s and that even though a large fraction of South African families experienced crime each year, the fraction experiencing crime was not larger than the fraction of families that experience crime in wealthy nations.

67. For a discussion of some of the psychological impacts of crime in South Africa, see chapter 9 in *The Impact of Crime on Small Businesses in South Africa*.

68. Stone, "Crime, Justice and Growth in South Africa," 12.

69. *Ibid.*, 12–13. Stone also recommends that crime reporting increase, so that police and other actors in the criminal justice system develop a clearer sense of the scope of criminal activity. This was also a feature of the Business Against Crime (BAC) initiative in 1996. See also Janine Rauch, *Changing step: crime prevention policy in South Africa*, 10–12, <http://www.issafrika.org/CJM/corrections/prisoncrowding/conf05/rauchbook.pdf>.

FIGURE 4: SOUTH AFRICA CRIME STATISTICS



Source: Chart constructed by authors from South African Police Services Data. See http://www.saps.gov.za/statistics/reports/crimestats/2008/crime_stats.htm.

actors in the justice system and the public. Currently, the public (domestic and international) perceives crime as a serious problem and does not recognize improvements in the level of violent crime or in the level of public-sector corruption.

The idea that more needs to be done to protect people and businesses in South Africa’s townships is echoed by a recent study, “The Impact of Crime on Small Businesses in South Africa.”⁷⁰ Commissioned by the Office of the Presidency of South Africa, this study intentionally extends Stone’s work and attempts to understand, in greater detail, how crime and the perception of crime impair small businesses in South Africa. The researchers surveyed nearly 450 small businesses, “almost all owned by historically disadvantaged black South Africans,” in inner cities, townships, and informal settlements in three major urban areas. These businesses had varying levels of income; most employed at least one person, and most had been in operation for just under eight years.

The survey asked questions pertaining to perceptions of crime and actual experience of crime. The results are telling: Large-scale and small-scale businesses reported that crime is a major concern. 70 percent of respondents perceive themselves and their employees to be at serious

risk of crime while at work and while traveling to and from work.⁷¹ Just over half of all respondents (54 percent) had experienced crime within the past year, with many respondents experiencing crime more than once in the past year. This figure, the report notes, is comparable to crime figures from developed countries such as the United States; however, the kinds of crime that South African small-business people experience is more violent than in developed countries.⁷²

A majority (53 percent) of respondents believed that incidents of crime against small businesses had increased in their areas of operation over the past year. The respondents cited burglary and robbery/armed robbery as the most “problematic” crimes in their areas, though there was variation in terms of crimes experienced across locations.⁷³ For the smallest businesses, virtually all the crime they experienced consisted of burglary and robbery; the largest businesses also experienced high levels of burglary and robbery, as well as shoplifting and fraud.⁷⁴

The study also identifies the costs of crime for these small businesses. Costs take a variety of forms. There are direct costs, such as the destruction of property or loss of inventory, and indirect costs, such as work disruptions, lost business, or need to close early to avoid targeting. There

70. See *The Impact of Crime on Small Businesses in South Africa*.

71. *Ibid.*, 22–23.

72. *Ibid.*, 30.

73. *Ibid.*, 27.

74. *Ibid.*, 36.



THE COSTS OF CRIME IN LANGA TOWNSHIP

Brother and sister Vicky and Nam Mangaliso run the Nomzano Butchery in central Langa Township, Cape Town. Vicky and Nam inherited Nomzano from their parents, who worked hard to build a number of businesses. Once the children inherited the store, they renovated it, increasing the display counter area and building a seating area just outside the store. They made the place and their products look better, and the residents of Langa responded: On weekends, the place is packed.

Vicky and Nam have vision and drive, but they also face real barriers to growth—barriers that raise their costs of doing business and, in turn, limit their ability to grow. For example, they have a great meat supplier; but the supplier, fearful of crime, won't make deliveries in Langa. The supplier's fear of crime forces Vicky and Nam to get their meat from a middleman, which raises costs for Vicky and Nam and, in turn, for their customers. If the local authorities did a better job at law

enforcement, Vicky and Nam would be able to provide their products to customers at a lower price.

They would also be able to provide such products to their customers more often. During the day, Nomzano is a busy place where customers line up and choose from the wide assortment of meats that Vicky and Nam sell, but problems with crime force Vicky and Nam to close the shop earlier than they would like. Closing early means that Vicky and Nam sell less and their customers cannot always get meat when they want it.

Because Vicky and Nam are good managers, Nomzano Butchery is growing. But imagine how much better things could be for the Mangalisos and for their customers if crime rates were lower in Langa. This is only one story, but it highlights an important issue: Unless the costs of crime are lowered, small businesses in South Africa will have a very difficult job driving economic growth.

are also security costs, such as the need to hire a private security guard, and opportunity costs, such as foregoing investments to improve a facility (see “The Costs of Crime in Langa Township”). As the presidential report notes, “Crime therefore seems to hit the poorest and the most successful entrepreneurs hardest—a particularly unfortunate pattern for growth and development.”⁷⁵

All of these costs make it more difficult for small businesses to operate profitably, expand, or hire new workers. In fact, the survey reports that businesses that experience crime are 17–22 percent *less* likely to increase employment and are 10–12 percent more likely to decrease employment than are businesses that have not experienced crime.⁷⁶ Furthermore, a 2005 study conducted

in Khayelitsha township, outside Cape Town, suggests that perceptions of the threat of crime are “the dominant deterrent keeping the unemployed from entering self-employment.”⁷⁷ Such perceptions limit opportunity and investment and keep businesses from growing. Improving security, therefore, must be an important component of any strategy to increase economic growth in South Africa. If the new government could improve security for all South Africans, it would increase the likelihood that both South Africans and foreigners would invest in the country, building and expanding businesses that would create jobs.

Providing jobs may be a crucial piece of crime deterrence. With few jobs available for low-skilled workers, crime

75. *Ibid.*, 44.

76. *Ibid.*, 55.

77. *Ibid.*, 65.

becomes an undesirable but available alternative. Cited in a recent study, the 2003 annual report by South Africa's police commissioner identified high unemployment as a major cause of crime.⁷⁸ Recognizing how difficult it is for any country to keep crime rates low, it may, nonetheless, be that some of the best strategies for improving security in South Africa involve increasing employment options.

4

Toward a Better Future—Foreign and Domestic Policy Reform in South Africa

THE 2009 ELECTIONS provide a new South African government with a unique opportunity to reform policies and drive political and economic change in Africa. Economic reforms that encourage greater entrepreneurship, greater trade openness, and expanded regional trade integration will help create jobs, train workers, and may provide alternatives to criminal activity. By creating an environment that enables more entrepreneurship at all levels of society, a new government will address the pressing need to expand economic opportunity for its citizens.

South Africa also has a unique opportunity to drive much-needed political change in Africa. By adopting a principled stand against tyrannical leaders and in favor of more transparent and accountable governance, the country can play the role it seemed destined for in 1994—Africa's leading advocate of peaceful, open, and democratic governance.

Expanding African Economic Integration

HISTORICALLY, AFRICAN NATIONS deal collectively with region-specific problems of security, trade, and economic development. To address the tribulations these nations face, a proliferation of organizations and institutions has emerged. The African Union (AU), the Southern African Development Community (SADC), the Southern African Customs Union (SACU), and the Common Market for Eastern and Southern Africa (COMESA) are all organizations that seek to address problems related to trade, development, and security (see “Southern and Eastern African Regional Organizations Defined” for descriptions of these organizations). Because African governments created these organizations piecemeal, nations committed to a multiplicity of organizations with differ-

ent requirements and barriers for entry. Consider a country that belongs to two such organizations. The terms of one organization might require it to give free-trade privileges to a particular country. But the other agreement might require it to maintain high tariff barriers against that same country. This confused tangle of memberships not only creates a climate of uncertainty and limits reciprocity in trade dealings, but also stunts further economic integration of the continent.⁷⁹ Recent efforts to rationalize trading regimes are a welcome development.

SOUTHERN AND EASTERN AFRICAN REGIONAL ORGANIZATIONS DEFINED

The Southern African Customs Union (SACU) is a regional trade agreement in Africa. Established in 1910, SACU is the oldest customs union in the world and encompasses Botswana, Lesotho, Namibia, Swaziland, and South Africa. On October 21, 2002, the member states signed a new SACU agreement that entered into force on July 16, 2004. The new agreement provides for the duty-free movement of goods between member states, a common external tariff (CET) against the rest of the world, and a revenue-sharing formula. For more information, visit <http://www.sacu.int>.

The Southern African Development Community (SADC), originally the Southern African Development Coordination Conference (SADCC), has been in existence since 1980 and works to ensure economic well-being, improvement of the standards of living and quality of life, peace, and security for the peoples of southern Africa. The member states are Angola, Botswana, the Democratic Republic of Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, the United Republic of Tanzania, Zambia, and Zimbabwe. SADC also launched a free-trade agreement in August 2008. Twelve member states are currently participating in this agreement, with Angola and the DRC set to join at a later date. For more information, visit <http://www.sadc.int>.

The Common Market for Eastern and Southern Africa (COMESA), previously the Preferential Trade Area (PTA) for Eastern and Southern Africa, was established in 1982 to promote economic prosperity through regional integration. COMESA signed a Free Trade Agreement on October 31, 2000. As a result, nine of the member states—Djibouti, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia, and Zimbabwe—eliminated their tariffs on COMESA-originating products. For more information, visit <http://www.comesa.int>.

The East African Community (EAC) is the regional inter-governmental organization of Kenya, Uganda, Tanzania, Burundi, and Rwanda and is headquartered in Arusha, Tanzania. The EAC aims to widen and deepen cooperation among the partner states and other regional economic communities in political, economic, and social fields for the partner states' mutual benefit. For more information, visit <http://www.eac.int>.

78. Stone, “Crime, Justice and Growth in South Africa,” 2. See also *South African Police Services Annual Report: 2003/2004* (Johannesburg, South African Police Services, 2004), 24–26, http://www.saps.gov.za/saps_profile/strategic_framework/annual_report/2003-2004/pdf/SAPS_Annual_Report_Apr03-31Mar04.pdf.

79. See Wolfe Braude, “SADC, COMESA, and the EAC: Conflicting Regional and Trade Agendas (Institute for Global Dialogue Occasional Paper no. 57, Johannesburg, 2008), http://www.igd.org.za/index.php?option=com_remository&Itemid=69&func=selectcat&cat=2.”

CASE STUDIES OF INCOMPATIBLE REGIONAL MEMBERSHIPS

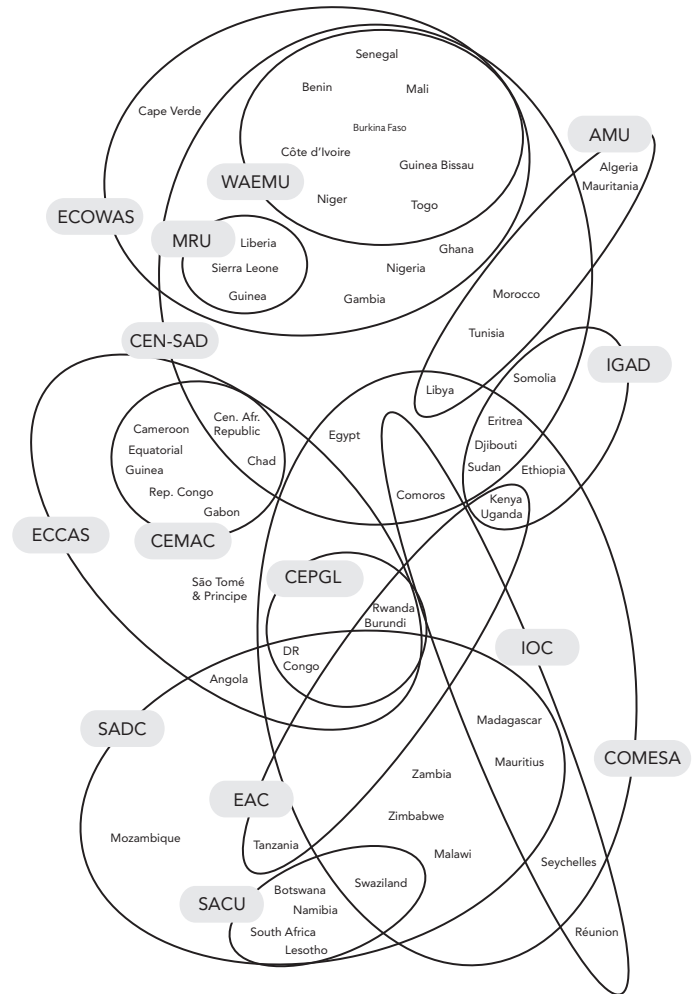
In his article, "Rationalisation or Redundancy? Making Eastern and Southern Africa's Regional Trade Units Relevant," Richard Gibb highlights the following three case studies as examples of incompatible membership across regional organizations on the African continent:

- Zambia is a member of SADC and COMESA. Under the SADC Protocol on Trade, Zambia is obliged to dismantle all tariff barriers to South Africa, a fellow SADC member, by 2012 at the latest. However, Zambia is also obliged, as a result of its COMESA membership, to create a COMESA common external tariff (CET) that excludes and discriminates against South Africa. Thus, Zambia has agreed simultaneously to promote free trade with South Africa and to maintain tariff barriers against that country. Madagascar, Malawi, Mauritius, and Zimbabwe are in exactly the same position.
- Swaziland, being a member of SADC and the only SACU state with COMESA membership, has agreed to implement simultaneously three free-trade agreements and three customs unions. It has agreed via the SACU CET to maintain tariff barriers against non-SADC COMESA states (despite being a member of the COMESA FTA), while simultaneously agreeing to erect a COMESA CET against other SACU states. At present, Swaziland relies on COMESA derogations, allowing it to access the COMESA FTA, while simultaneously applying the SACU tariff regime against COMESA imports.
- Kenya's exports are focused on COMESA member states and Tanzania, with less than 1 percent of exports being destined for South Africa. It makes perfect sense, therefore, for Kenya to promote FTAs with its most important trading partners, via the EAC and COMESA (and not SADC). However, because several COMESA members and Tanzania are also signatories to the SADC Protocol on Trade, South African goods will, in theory, gain access to Kenya's market via the customs unions of the EAC and COMESA.

Richard Gibb, "Rationalisation or Redundancy? Making Eastern and Southern Africa's Regional Trade Units Relevant" (working paper, The Brenthurst Foundation, Johannesburg, 2006), 12, <http://www.thebrenthurstfoundation.org/>.

A new South African government has a variety of policy options in this area. First, it can accept the status quo and work with a multiplicity of often conflicting memberships. Second, it can become staunchly isolationist and withdraw itself from organizations that are presenting it with difficulties. Third, it can work to further integrate the continent economically. Fourth, it could move toward unilateral free trade, a politically difficult strategy but one that other nations (such as New Zealand) have tried. We believe expanded regional integration and reduced trade barriers would create the most economic opportunities so long as the new government of South Africa

FIGURE 6: INCOMPATIBLE REGIONAL MEMBERSHIPS



Source: World Bank, "Regional Integration Assistance Strategy for Sub-Saharan Africa," 2008, 12, <http://go.worldbank.org/89J65V2HB0>. This chart shows each state's membership in different regional economic organizations, demonstrating the overlap and redundancy of certain organization and the inherent complexity of economic cooperation between different African states.

carefully considers these integration efforts and recognizes the potential downfalls that accompany them.

Regional integration strategies among the SADC, COMESA, SACU, and EAC attempt to address these overlaps. The groups are creating free-trade areas, establishing common custom unions, creating common markets, and finally creating an economic union among the regional countries.⁸⁰ As a result, no country will have to treat its trading partner both as an enemy and a friend in the same transaction. South Africa's new government

80. Richard Gibb, "Rationalisation or Redundancy? Making Eastern and Southern Africa's Regional Trade Units Relevant," 8.

ought to move forward with these strategies in order to bring about further regional economic integration.

Importantly though, a problem with regional integration in southern and eastern Africa is South Africa's political and economic dominance of the region. In the post-apartheid era, South Africa has become more involved in regional economic affairs. However, a marked asymmetry in the balance of trade between South Africa and its lesser-developed trading partners has emerged.⁸¹ This is an important factor in determining the success of regional trade; how it is managed could produce varying results. Thus, a new government that uses the strategies adopted by these organizations to promote regional integration must carefully consider South Africa's dominance if it is to achieve the goal of further economic integration.

Useful though they are, regional trade agreements are not the ultimate solution to further economic integration in Africa. In fact, if countries opt to enter into economically less-efficient regional trade agreements, such agreements could serve as stumbling blocks to eventual multilateralism. Regional trade agreements could result in trade diversion—members of the preferential trading agreements buying goods from higher-cost sources that are part of the agreements rather than buying from lower-cost producers outside the agreement and region. Moreover, if changes are made to the existing system, specific attention must be paid to the original rules that structured this complex web of agreements.⁸² Any changes to the existing system that do not take into consideration the original rules will only add more complexity and costs rather than expanding opportunities.

Despite these possible shortcomings, carefully considered agreements do create new opportunities for gains from trade that would not otherwise have existed. Expanded regional integration and reduced trade barriers will create economic opportunities that will benefit people throughout the continent. A new government would be wise to make this a priority.

Promoting Good Governance

"[W]e need to take an unambiguous stand on human rights as befits our recent history and our commitment to fostering the best interests of the emerging world; we need to be firm with our peers when they do not meet the exacting standards of best practice."⁸³

—MP Tony Leon

Good governance is a vital component of development, growth, and stability.⁸⁴ While democracy and the overall quality of governance on the African continent have improved over the past ten years, much remains to be done.⁸⁵ Freedom of the press remains restricted, rule of law is limited, governments lack transparency and accountability, and corruption still plagues governments throughout the continent.⁸⁶ A new South African government that tackles its misplaced solidarity and advocates vigorously for good governance within its region and in international forums could be a true leader for change in these areas.

A redefinition of South Africa's strategy in dealing with matters related to international affairs could yield far better foreign policy outcomes for a new government. By better promoting the principles on which it was founded, South Africa could take a lead in advocating for good governance rather than bootstrapping to African solidarity. By acting in a principled manner, South Africa could provide an example for those countries seeking to reform and working to set themselves apart from those who continue to act destructively. If South Africa wants to do this, it will have to break away from existing multilateral strategies defined by African solidarity and adopt a more bilateral approach wherein South Africa's political ideals and the principles embedded in its constitution dictate its actions rather than the interest of the coalition.

Since 1994, South Africa's representatives to international forums have hindered the unique opportunities presented to the country. While human rights and human flourishing formed the cornerstone of the foreign policy

81. *Ibid.*, 14.

82. Rules of origin problems arise because members of the agreement do not have the same policies with respect to non-members and also place restrictions on the location from which goods can originate.

83. Speech by MP Tony Leon at the South African Institute of International Affairs, August 21, 2007.

84. Daniel Kaufmann and Aart Kraay, *Growth without Governance*, <http://siteresources.worldbank.org/INTWBIGOVANTCOR/Resources/growthgov.pdf>. See also Daniel Kaufmann et al. "Governance Matters: From Measurement to Action," *Finance and Development* 37 no. 2 (June 2000), <http://www.imf.org/external/pubs/ft/fandd/2000/06/kauf.htm>.

85. See Frederico Marzo, "More trees have fallen. . . but the forest is still growing: Recent trends in African politics" OECD Development Center Policy Insights no. 63 (Paris: OECD, 2008), <http://www.oecd.org/dataoecd/55/16/40583768.pdf>. See also 2008 Mo Ibrahim Foundation *Quality of Governance Index*, <http://www.moibrahimfoundation.org/index-2008/>. Both reference a general trend in a positive direction.

86. Marzo, "More trees have fallen," 1.

under former President Nelson Mandela, former President Thabo Mbeki operated more under the general rubric of African solidarity, no matter the issue at hand. For instance, the most recent South African Department of Foreign Affairs Strategic Plan highlights how the country must “further advance on the theme of enhancing the cooperation between the United Nations and regional organizations, in particular the African Union.”⁸⁷ This new emphasis brought about a greater focus on African issues and the encouragement of dialogue among the countries of the developing world in order to advance the African agenda.

This emphasis has set up a false dichotomy between those who favor African solidarity and those who want to move forward with the global economic agenda. This dichotomy has been particularly problematic in the United Nations. On several occasions, South African representatives have voted with other developing countries on the basis of African and/or developing world solidarity, rather than for the principles on which the country was founded. For example, South Africa voted with China and Russia in vetoing resolutions that condemned human rights violations in Myanmar. It spoke out against imposing sanctions in Darfur and Zimbabwe, and it defended the proliferation of nuclear weapons in Iran.

South Africa should recognize the responsibility it carries because of its peaceful transition after apartheid, and it ought to leverage the moral authority that has accompanied that accomplishment to make the most of the opportunities it has been presented with in international affairs.⁸⁸ South Africa could make it an international-relations priority to advocate much more vigorously for good governance within its region and in international forums. This priority could very well lead to increased international respect and make South Africa a bigger player on the international stage.

In addition to leveraging its role to promote good governance, a new government could also work towards a more robust strategy for monitoring elections. More and more countries are legitimizing their governments

through elections, many of which are peaceful. This is a positive development. Until recently, it was common for African governments to stay in power for decades at a time without any elections.⁸⁹

Most countries have limited experience with peaceful transitions, which increases the probability for election fraud and violence—especially when political parties engage in highly contested elections for control over allocation of government-controlled contracts, jobs, and resources. For instance, observers from the European Union branded the Nigerian election of 2007 “not credible” due to the level of cheating and violence. In 2008, violence in Kenya followed highly contested presidential elections.⁹⁰ In both cases, the violence was related to politicians and favored groups wanting to retain political power and access to economically beneficial opportunities.

Encouraging better electoral practices is a key to the development of robust and stable democracies. A new South African government could contribute to international efforts to reduce electoral violence and fraud by providing impartial election observers; these efforts could also strengthen the electoral processes in other countries through an independent assessment of election preparations, capabilities, and fairness. These observers could provide an impartial assessment of the electoral process and, where relevant, provide recommendations for ways to improve the process in future elections. In addition, these observers could assist the efforts of election administrators, political parties, and civil society groups to develop the tools and skills necessary to resolve conflicts peacefully and discourage violence related to the electoral process.

As helpful as impartial election observers are, they do not always produce fair elections. Thus, the new government should consider other ways in which it can work with nations and institutions to develop enforcement and compliance mechanisms to reprimand countries that violate existing standards set forth by international agreements. Countries like Nigeria and Zimbabwe

87. See South African Department of Foreign Affairs Strategic Plan 2008–2011, 14, <http://www.dfa.gov.za/departement/stratplan2008-2011/index.htm>.

88. Leon makes a similar argument in “Obama era challenges SA to change its foreign policy.”

89. According to Paul Collier and Jan Willem Gunning, “by 1991 only 13 percent of the [African] population was living in states in which legislators had been chosen in contested multiparty elections, and only 10 percent in states in which the chief executive had been so chosen.” Paul Collier and Jan Willem Gunning, “Explaining African Economic Performance,” *Journal of Economic Literature* 37 (March 1999): 68.

90. Marzo, “More trees have fallen,” 1.

faced very few penalties in the wake of their electoral fraud. Civil society and other democratic nations should denounce fraudulent elections, as failure to do so only creates incentives for political leaders to misuse the electoral process.

On occasion, countries have penalized these actions by removing a country's memberships from regional and international organizations, thereby increasing barriers to trade and commerce. However, this produces a second-order effect of harming the people who live within the country who did not commit any crimes. Instead of punishing the people of the country, the new South African government could concentrate its censure on the actors by pushing for travel restrictions and economic sanctions on officials who won elections by fraudulent means. The international community used this tactic after the highly contested Zimbabwean elections in 2008. They placed targeted international sanctions that limited travel and froze bank accounts on the elected officials in the Mugabe government who engaged in violent and fraudulent activities during and after the elections.

Focusing on Public and Cultural Diplomacy

IF SOUTH AFRICA successfully cleans its internal house and becomes the driving force for reform and hope in Africa, then diplomatic mechanisms need to be in place that allow the citizens and officials of other governments to learn from South Africa's experience. South Africa can gain influence beyond traditional balance-of-power politics by promoting the attractiveness of its culture, policies, and political ideals.⁹¹ By letting other countries admire its values, emulate its examples, and aspire to its levels of openness and prosperity, South Africa could further serve as a driving force for reform and economic change.

Countries like the United States, the United Kingdom, and Japan have had great success with their public and cultural diplomatic agencies that communicate the ideals and values of their societies.⁹² For instance, during the Cold War, the United States used these agencies to illustrate the values and principles that made its society function in order to influence audiences in eastern and central Europe.⁹³

These agencies can increase educational, cultural, and professional exchanges. Such exchanges would expose more people to the unique manner in which South Africa has been able to make a very heterogeneous population function without severe conflict and instability.⁹⁴ For instance, exchange programs for judges would provide access to knowledge and information that might improve the rule of law in many countries. Even if judges come from different cultures, legal systems, and traditions, they would still benefit from the exposure to the social and professional environments of South Africa.

These exchange programs would also fill a void within the context of creating stable democratic societies. Most of the institutional reforms on the African continent have occurred at the formal level—constitutions, contracts, and property rights—but little has been done to adjust and leverage informal institutions (norms and culture) to accommodate and reinforce those formal changes.⁹⁵ These informal and formal institutions can conflict with each other, yielding instability and tension within a society. By fostering a climate in which values, culture, and ideas could flourish and be shared, countries and cultures alike would learn from one another to develop and adjust the informal institutions that can complement the formal ones.⁹⁶

Moreover, promoting international dialogue and collaboration and the exchange of cultures and values often

91. See Joseph Nye, *Soft Power: The Means to Success in World Politics* (New York: Perseus Books Group, 2004), wherein he describes how countries can influence international affairs through attraction rather than coercion.

92. Report to the Advisory Committee on Cultural Diplomacy, *Cultural Diplomacy: The Lynchpin of Public Diplomacy*, September 2005, <http://www.state.gov/documents/organization/54374.pdf>.

93. See Nick Cull, *The Cold War and the United States Information Agency: American Propaganda and Public Diplomacy 1945–1989* (Cambridge, UK: Cambridge University Press, 2008).

94. This is not meant to disregard the problems the country continues to face. Rather, it is to highlight the successes the country has had and continues to have despite concerns before, during, and after the transition that violence might escalate and expropriations and nationalizations be adopted as official policy.

95. George Ayittey, "Economic Transformation and Governance in Africa: Strategies for Recovery, Growth and Development," in chapter 4 in *The Transition to Democratic Governance in Africa: The Continuing Struggle*, eds. John Mukum Mbaku and Julius Omozuanvbo Ihonvbere (Westport, CT: Praeger, 2003).

96. See Douglass North, *Institutions, Institutional Change, and Economic Performance* (Cambridge, UK: Cambridge University Press, 1990).



creates a greater sense of trust and credibility between the people who might not have shared common interests in the past. If a country engages in policies that both broaden and diversify its pool of cultural resources, the country increases the availability of these products to individuals, expanding the existing pool of cultural goods obtainable in the global marketplace and exposing people to a variety of products that could ultimately lead to more creativity. Artists, musicians, and architects, for example, all benefit from the exposure to different methods, interpretations, and styles. Also, these agencies can increase bridging and bonding social capital—those networks of civic engagement, norms of reciprocity, and attitudes of trust between different groups of people.⁹⁷ By creating a greater sense of trust and collaboration that extends beyond government-to-government relationships, people throughout the African continent could indirectly benefit from more stability and peace.⁹⁸

On the domestic front, a new South African government faces serious challenges. The policy choices a new gov-

ernment makes have the potential to lessen resentment among the poor, quell xenophobic violence, and increase investor confidence in the country's future. However, in order to spur job creation and improve educational outcomes and security, a new government will need to adopt policies that expand entrepreneurial opportunities, make it easier to hire and fire workers, and limit predation. By creating a more open economy, one that increases economic freedom for all of its citizens, a new South African government will better meet the challenges of creating jobs, improving educational outcomes, and improving security than it would by protecting some workers at the expense of most South Africans.

Creating Jobs

IN ORDER TO spur job creation, the new government must create an environment that supports and encourages entrepreneurship at all levels of society. Current policies too often penalize entrepreneurship by making it difficult, costly, and cumbersome to hire, retain, and/or fire

97. Within the literature of social capital, one can find numerous references to the benefits of bridging social capital—those social networks between socially heterogeneous groups. See Robert Putnam, *Bowling Alone: The Collapse and Revival of American Community* (New York, NY: Simon & Schuster, 2003). See also Robert Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton, NJ: Princeton University Press, 1993).

98. A possible concern with this strategy could be that South African taxpayers largely foot the expenses. This will be true in the short run. However, in the long run, universities, non-profits, and other civil groups will start to bear more of the financial burden. This has largely been the case with non-profit organizations and universities in the United States. They engage in these very activities fairly independently and with limited government funding.

workers and by imposing other costs on businesses, such as failing to improve security in many neighborhoods. By providing incentives to private, formal-sector employers to hire more of the young and needy, the government would help address the problem of high unemployment.

The challenge of job creation in South Africa can be met, but this will require that a new government commit to helping *all* South Africans, not just those who are union members or otherwise well-connected to the government. Policy options that would support entrepreneurship and expand employment opportunities include the following

- creating a two-tiered minimum wage structure;
- allowing for freedom of contracting in labor relations through the use of special exemption certificates; and
- creating special economic zones to encourage business development, job creation, and skills training

We suggest these options in contrast to recent proposals that argue in favor of creating a targeted wage subsidy in South Africa. As outlined in Levinsohn's paper, a targeted wage subsidy would, on the margin, "encourage a bit more risk-taking" by making it less costly for employers to hire low-skill workers. This encouragement is important, Levinsohn argues, because once workers find formal-sector employment, they tend to stay employed in this sector. Conversely, people employed in the informal sector have a very difficult time transitioning to the formal sector.⁹⁹

There are, however, other, less-cumbersome ways of inducing employers to hire less-attractive job candidates. One relatively straightforward alternative would be to create a two-tiered minimum-wage structure. A two-tier structure would pay young workers (for example, ages 16 to 25) a lower wage than is currently paid to other workers. Workers over 25 would receive the higher minimum wage. Such a change would create an incentive for

employers to hire young workers and provide them with on-the-job training. This change to current labor laws would create relatively little red tape because workers would only need to prove their age in order for employers to pay the lower wage rate. We recognize that this option is not ideal. It would create a targeted group and therefore would not help currently unemployed workers over the age of 25. However, a wage subsidy also creates a targeted group. Moreover, it uses taxpayer revenue to incentivize job creation, while a two-tier minimum wage works by exempting a certain class of workers from one particular labor regulation for a time.¹⁰⁰

A somewhat more complex alternative would be to expand freedom of contract by providing all currently unemployed people with special exemption certificates. Special exemption certificates would provide a temporary exemption from labor law requirements for *all* currently unemployed workers as well as employers. They would, in a sense, create individualized, moveable, special economic zones. These zones would be associated with particular workers; they would not be geographically based.

This alternative would encourage businesses to take on the risks associated with hiring less-skilled people.¹⁰¹ Employees would be able to contract freely with employers to work at wages below the minimum wage or without benefits negotiated in particular sectors. Employers who hire workers with exemption certificates would not be liable for violating labor regulations. Traditional common-law protections against fraud and abuse would remain. As with a two-tier minimum wage, special exemption certificates would provide a means for the unskilled to gain valuable on-the-job work experience. They would also have the benefit of relieving businesses, particularly small businesses, of the compliance costs associated with current labor regulations. Making it easier and less costly to do business may well spur business creation, particularly in the small and medium-sized enterprise sector. We recognize, however, that creating a certificate program would entail costs associated with

99. Levinsohn, "Two Policies to Alleviate Unemployment in South Africa," 3.

100. For example, New Zealand currently has a two-tier minimum wage, with one rate for workers over 17 and a lower rate for people between the ages of 16 and 17 who have very limited work experience. New Zealand originally created a youth minimum wage in 1994 for workers between the ages of 16 and 19. This wage was set at 60 percent of the full wage. In 2008, the youth wage was replaced by a "new entrants" wage, which is available to a smaller pool of workers—those between 16 and 17 years of age who have very little work experience. See "Minimum Pay: Employment Relations Service," Department of Labor, New Zealand, <http://www.ers.govt.nz/pay/previous.html>.

101. For a more complete discussion of this proposal see Eustace Davie, *Jobs for the Jobless*, 6–10, <http://www.freemarketfoundation.com/htmlupload/PUBDoc1059.doc>.

issuing the certificates and administering the program. It is likely, but not certain, that these costs would be offset by the benefits associated with putting more people to work. We also recognize that such a program might be captured in the future to benefit specific groups or to serve political ends.

Another potentially beneficial policy change for a new South African government to consider would be creating special economic zones. Special economic zones (also called free-trade zones, export processing zones, and free ports), are areas within a country where government modifies laws and regulations in order to encourage business development. These areas generally allow for low-duty or duty-free import of materials needed to manufacture products created within the zone. They offer lower corporate tax rates and less regulation of the labor market than do other areas within the country. Special economic zones are designed to attract investment (often foreign investment), create export industries, and may serve as a counterweight to the politically powerful unions.

In successful zones, more businesses create jobs, more women find work, more workers acquire skills, and human capital increases.¹⁰² Over the past several decades, China, India, Brazil, Mexico, and Mauritius, among others, have created special economic zones. Mauritius created such free trade zones in the 1970s, and over time these zones have helped transform that country from a poor, mono-crop economy into a stable, middle-income society. Given the very high levels of unemployment in rural areas and South Africa's relatively good infrastructure, special economic zones might play a particularly useful role in addressing problems of unemployment in rural areas.

Nobel Laureate Muhammad Yunus, founder of the Grameen Bank, argues these zones are especially important for the world's poor:

Very poor people should be entitled to the sort of waiver medallion that enables them to take care of themselves through self-employment opportunities with minimal or no interference from laws that weren't designed with them in mind. Such a

medallion would entitle the very poor to do what they need to do in search of earning their own legal livelihood, and no law should be allowed to interfere with that initiative. Free trade and special enterprise zones are common. Let's work to give the poor the individual right to operate in a legal interference-free zone to make a living for themselves.¹⁰³

Adopting policy changes that would make it easier and less costly for formal-sector employers to hire the vast number of currently unemployed South Africans must be a key goal of any new administration. However, if a new government continues to defer to politically powerful unions, it is unlikely to enact much-needed reforms in the regulatory environment. Nor is it likely to create special economic zones. And yet, these policy options represent a real possibility for expanded economic opportunity for South Africa's poor.

Encouraging Experimentation and Educational Entrepreneurship

SOUTH AFRICA'S EDUCATIONAL sector desperately needs reform. This sector employs hundreds of thousands of people and spends billions of rand per year, and yet there is simply not enough to show for these efforts. Too many poor students lack needed skills and are unprepared for formal-sector employment. In part, this is the legacy of apartheid-era inequalities. But other serious problems contribute to this troubling situation: a centralized, bureaucratic system, coupled with strong unionization, stymies innovation and creativity. South Africa's students need a more flexible, creative, and responsive educational experience. The challenge for a new South African government will be to introduce much-needed competition into this vital sector so that South African students receive the education they need to succeed in a globalized economy.

Some policy options that would increase flexibility and responsiveness in the educational system include the following:

- Modify teacher certification requirements so that schools, particularly independent schools, can hire based on competence.

102. Special economic zones are not always successful. Some of the conditions that may be needed for special economic zones to thrive are good governance, good infrastructure, and a good location. For a discussion of the impact of special economic zones in a wide variety of countries, see Aradhna Aggarwal, "Impact of Special Economic Zones on Employment, Poverty and Human Development" (working paper no. 194, Indian Council for Research on International Economic Relations, May 2007), http://www.icrier.org/pdf/Working_Paper_194.pdf.

103. Muhammed Yunus, "How Legal Steps Can Help to Pave the Way to Ending Poverty," *Human Rights* 35, no. 1 (Winter 2008), http://www.abanet.org/irr/hr/winter08/yunus_winter08.html.

- Reduce regulatory and administrative burdens for teachers in both public and independent schools so that teachers are better able to focus on teaching.
- Allow for local autonomy over curricula.
- Encourage the entry of more private-sector educational entrepreneurs by reducing the costs of opening and operating schools.

The government should modify teacher certification requirements. An initial step to consider would be removing the requirement that all certified teachers must have Bachelor of Education degrees. As university-level teaching attests, a competent teacher need not have a specialized degree in education. Teachers who demonstrate competence in a subject area (biology, math, or history, for example) should be certified to teach. Welcoming competent teachers into more classrooms would benefit students. Demonstrating a subject-area competence is one way to ensure that students have teachers who can pass on valuable knowledge. Such a policy change is likely, however, to meet with strong resistance from teachers' unions—a powerful interest group in South Africa.

A new government should identify ways to reduce the regulatory and administrative burdens associated with assessments and reporting requirements. This would help lower the costs associated with providing education and would increase the time teachers spend in their classrooms. If, as reported by the OECD, teachers are spending increasing amounts of time on administrative tasks and not on teaching, they and, more importantly, their students, need such adjustments. While transparency and accountability are clearly important for parents, School Governing Bodies, and government officials, the government should simplify administrative reporting requirements so that teachers may focus on teaching.

Parents and School Governing Bodies understand what their children and students need in order to function effectively in a new South Africa. The government should provide these groups with increased responsibilities and authority to shape curricula that meet the needs of their students. A national curriculum cannot meet the diverse needs of students.¹⁰⁴ Rather, it imposes a “one-size-fits all” program on urban and rural students, wealthier and poorer students and English-speaking and non-English

speaking students, which may well be inappropriate for most. More importantly, a national curriculum limits the ability of teachers and schools to experiment with new subject matter and new approaches to learning and teaching. As South African economist Eustace Davie points out:

[N]o curriculum prepared by . . . a committee can provide an education that all parents and their children will find suitable, even if the idea of such a curriculum was not flawed because of the stultifying conformity it introduces into the schooling process.¹⁰⁵

Encouraging the entry of more private educational entrepreneurs might mean exempting independent schools from complying with the negotiated salary scale of unionized teachers and/or requiring less onerous reporting requirements. In combination with the introduction of a more flexible approach to curriculum and to teacher certification, private educators may be better able to respond in creative ways to student and parent desires. Furthermore, private-sector entrepreneurs would bring different capacities to the task of managing educational facilities. Thus, vocational education training and early childhood development programs might provide good starting points for independent school experimentation.

The fact that independent schools charge fees is not an insurmountable barrier. As the work of James Tooley and Pauline Dixon amply demonstrates, educational entrepreneurs currently cater to the needs of very low-income parents in the slums of Lagos, Nigeria; Nairobi, Kenya; and throughout India.¹⁰⁶ These entrepreneurs charge fees, but parents believe they receive good value in exchange for these sums. If poor parents in other countries can pay these fees, it seems likely that poor South Africans would be able to do so.

Increasing Security for All South Africans

A NEW SOUTH African government faces many challenges in terms of reducing crime and improving security in the country. Possible policy options to reduce crime rates and improve economic opportunity are to:

104. Glewwe and Kremer, “Schools, Teachers and Education Outcomes in Developing Countries,” 10.

105. Davie, *Unchain the Child*, 13.

106. See, for example, “Educating Amaretech: Private Schools and the Poor and the New Frontier for Investors,” IFC Gold Prize Essay, [http://www.ifc.org/ifcext/economics.nsf/AttachmentsByTitle/educating_amaretech_gold_essay.pdf/\\$FILE/educating_amaretech_gold_essay.pdf](http://www.ifc.org/ifcext/economics.nsf/AttachmentsByTitle/educating_amaretech_gold_essay.pdf/$FILE/educating_amaretech_gold_essay.pdf). See also memorandum submitted by Professor James Tooley, “School of Education,” University of Newcastle upon Tyne, to the British House of Commons, March 2006, <http://www.publications.parliament.uk/pa/cm200506/cmselect/cmintdev/921/921we55.htm>.



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- Improve “customer satisfaction” levels with the police force by increasing police visibility, reducing police response times, and encouraging more responsive interactions with community members.
- Encourage crime reporting and more community involvement.

As noted in the Small Business Project (SBP) study, this may require that the South African Police Service raise its recruitment requirements (a difficult proposition given the educational sector problems discussed above) while also improving communications and responsiveness to citizens. Citizens do not report crimes if they feel the police are either uninterested or unwilling to help.

Forums, such as community policing forums, that bring the community together with the local police may help improve crime reporting and may increase trust between the police and community members. While the prospect of a safer community might be enough to encourage some community members to participate in such efforts, an incentive system—such as more widespread rewards for information leading to an arrest—might encourage other members, such as time-pressed business owners, to participate as well. The SBP study also suggests

that businesses that participate in such forums receive discounts on insurance policies and/or on the costs of purchasing security-related equipment and services. An alternative proposal might be to provide a tax rebate for such purchases, though clearly such a rebate raises concerns of a possible over-investment in such equipment or services. Municipal rates rebates for businesses and community organizations that take on some of the security functions of SAPS are offered as yet another possible incentive to encourage greater community involvement in crime prevention.¹⁰⁷

More generally, a new government needs to identify ways to lower the costs that businesses bear as a result of high crime rates. As with all complex problems there is no panacea. However, the government might be able to make inroads into this pervasive problem by focusing on expanding economic and educational opportunities for all citizens. Policies that privilege and protect some workers, such as union members, over other citizens are unethical and unproductive. Shielding one group from competitive forces imposes costs on all of society. While it currently remains politically unfeasible for a South African government to radically change labor regulations

107. *The Impact of Crime on Small Businesses*, 84.

to make it easier to hire and fire workers, such a policy is, ultimately, what the country may need to take its place in the forefront of developed nations.

5 Conclusion

SOUTH AFRICA PLAYS a unique role in Africa. It is the continent's largest economy and the leading voice for democratic governance. However, as it faces a new round of elections, South Africa confronts a host of difficult political challenges. How the new government addresses these challenges and how the country manages this transition period are issues of concern for policy makers around the world. For example, will the country remain politically and economically stable, or will South Africa's economy and its democratic institutions deteriorate? What would the ramifications of such deterioration be for southern Africa, the continent, and South Africa's many allies?

This paper has identified several areas of concern that a new government in South Africa must address. As improving the lives and livelihoods of the least advantaged must be at the top of any new government's policy agenda, we focus on a few issues that we believe play a particularly important role in promoting or hindering opportunity for the country's poor. We argue that improvements in the crucial areas of employment, education, and crime prevention, as well reformed and extended regional trade integration, would help increase opportunities for South Africa's poor.

While the challenges a new government in South Africa will face are great, so too is the nation's potential. The upcoming election will test the country's commitment to democratic institutions and peaceful political transitions. It will also serve as a test of past public policies—policies criticized for not doing enough to create positive economic opportunities throughout the country. We hope the new government will focus its efforts on improving conditions for all South Africans, not just for the politically well-connected few.

South Africa has been an African success story. With a new focus on expanding opportunity and good governance, it can continue to be a success, playing an evermore meaningful role in the region, continent, and world.

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