

## The “Second Economy”; Short hand, underhand or sleight of hand?

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### 1. Introduction

South Africa is an upper middle country, and yet as a result of a deeply skewed allocation of income and resources<sup>2</sup>, many millions of people live in chronic poverty. The eradication of poverty remains the official priority of the state and the ruling party, but we have seen levels of unemployment almost double since 1994<sup>3</sup>, and the broad consensus is that levels of poverty and inequality have correspondingly risen. All of this in spite of the fact that the country has experienced a steady rate of economic growth and development since 1995, with GDP growth in 2004 being at its highest since 1984<sup>4</sup>.

Poor people are beginning to run out of patience waiting for the promised delivery of government services, houses, jobs and a better life for all, as is evidenced by the increasing number of demonstrations in poor communities, and an increase in both sectoral and national strikes, and yet government appears to continue to flounder about for any definitive reasons for these continuing trends of poverty and unemployment. For many others however the rise in levels of unemployment and poverty and the low levels of state capacity to deliver can be directly traced to the impact of the conservative macro-economic policies adopted by the state under the GEAR<sup>5</sup> between 1996 and 2000.

Despite the fact that the GEAR failed to meet its targets on most of its goals, including increased levels of local and foreign investment, as well as employment creation, government for its part continues to hail the success of GEAR based solely on the attainment of two indicators, namely the reduction of the budget deficit, and the reduction in inflation.

We believe that this myopia is symptomatic of an inability or unwillingness by the state to view the economy as a unitary system. In this paper we argue that the continued use of the phrases “first” and “second” economies are informed by the same inability or unwillingness. The Presidency has said that this phrase

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2 South Africa has one the highest Gini coefficients internationally. According to the UNDP Human Development Report of 2003 (quoting work by Fedderke in 2003), the Gini coefficient for an individual (rather than household) based on income was 0.69 and based on expenditure was 0.67 in 2000. This was up from a measure of 0.66 for both in 1995.

3 The official unemployment rate virtually doubled from 15.9% in 1995 to 30.5 % in 2002, while the expanded rate of unemployment rose from 29.4% in 1995 to 42.5% in 2002 (DBSA, 2005).

4 Brait, Macro GDP, 29 November 2005.

5 Growth Employment and Redistribution.

could be seen as a metaphor, a short hand, for all of those who do not fall into the formal economy of South Africa. Policies should not be built on metaphors. Is it a conjuror's sleight of hand, an attempt to persuade people both internally and internationally that we have contained and isolated the causes of poverty in society, or should the continued use of this phrase be seen as a deliberate and underhand attempt to deny the true roots of the crisis at hand, which is that the processes that pauperise and impoverish are the same that enrich the formal economy and encourage increased investment; that the process of marginalisation of many millions of people is an integral part of the equation that has and continues to drive formal economic growth.

The ubiquitous use by policy makers of the "two economies" divide we see as reflecting a perceived need by the state to accommodate both the demand of Business for a non-interventionist<sup>6</sup> state with the clear need for state led intervention to address the growing needs of the poor and unemployed. The result is the sleight of hand of the "first" and "second" parallel economies theory.

This paper begins with an outline of how the state uses the concept of the "second economy" in government policy discourse. We then trace the historical processes by which black South Africans have been marginalised from the mainstream capitalist economy since colonial times. Thereafter we consider how the President introduced the concept of an economic dualism into South Africa discourse, and see how that has developed from two nations, to a first and third world discourse, and finally to the "first" and "second" economy. Hereafter we consider where the term "second economy" originated from internationally, and we explore the characteristics of a mainstream economy with a true parallel economy co-existing alongside it, to demonstrate that this is not what we experience in South Africa.

Finally we revisit Wolpe's critique of the development of Bantustans and the policies of segregation and Apartheid, and his underlying thesis that the rationale for the development of Reserves was informed not just by racial ideology, but by compelling needs of capitalism. The conclusion of the paper brings together these different sections, and suggests that there are similar compelling dynamics of Capital at work that result in an ongoing loss of employment, and the consequent increase in poverty and social atomization. The Conclusion suggests that we will not be able to identify successful solutions if we fail to see the interconnected causes and effects within this economy. We dismiss the use of "two economies" as an attempt to legitimize the favouring of

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<sup>6</sup> While the state has limited interventions with regard to black economic empowerment endeavors, what we refer to here is intervention in the nature and structure of the economy itself.

the needs of business and to promote separate and unequal development of the rich and the poor.

## 2. The “two economies theory” –a fatally destructive contradiction.

Twelve years into our new democracy, government is finalizing a new growth plan, entitled ASGI-SA, or the Accelerated and Shared Growth Initiative of South Africa. The details of the growth plan have not been publicly communicated, but many who have engaged with it have expressed concern that this plan fails to introduce anything new that could substantively address the deepening levels of poverty and unemployment in South Africa.

In the 2006 State of the Nation Address, the President tried to reconcile these two contradictions, unsuccessfully, as follows:

*“The Honourable Members and the country at large are aware that, under the leadership of Deputy President Phumzile Mlambo-Ngcuka, the three spheres of government have been working together for some months to elaborate the specific interventions that will ensure that ASGISA, the Accelerated and Shared Growth Initiative of South Africa, succeeds in its purposes, which include the reduction of the unemployment levels.*

...

*I must also take advantage of this occasion to explain that ASGISA is not intended to cover all elements of a comprehensive development plan. Rather it consists of a limited set of interventions that are intended to serve as catalysts to accelerated and shared growth and development.”*

These contrary views of ASGISA are reflective of the paralyzing malaise with which government is struck when faced with the challenge of developing an appropriate and effective development path for South Africa. We shall argue throughout this paper that this is due to an unwillingness to critically engage with the structure of the South African economy in its entirety, as this can logically can only lead to an acknowledgement that poverty and unemployment are a direct result of the current growth path patterns of ownership of the means of production, and the methods of production favoured by business.

This is why government cannot design a single development plan for the country, but instead must perform contortions to accommodate both a so-called lean, “first world” market economy and an interventionalist developmental state within one country. This is what informs the need of the state to introduce the dualism of the “first” and the “second” economies which we are to believe operate as two separate parallel economies. However if government continues to believe its own propaganda, accommodating this dualism will only result in deepening poverty and destitution as the formal economy continues to spew out those surplus to its requirements.

### 3. Defining the “first” and the “second” economies.

According to government discourse, the first economy is strong, robust and internationally competitive. We are advised that the only limits to its exponential growth lie in restrictive state regulations involving bureaucratic red tape (including around the importation of skills) and labour legislation, which obstacles government has undertaken to review and where possible, remove, which should free the formal economy to forge ahead and attain the magical 6% growth rate by 2010<sup>7</sup>.

This “first” economy is set to realize the “rainbow” nation’s goal of true racial and economic integration, as any advertising bill board will show you, with be-suited young men and women of all hues seated behind one board room table.

The “second economy” does not feature much on bill boards, but is present in most government papers and speeches, generally in a short paragraph towards the end entitled “Second Economy Interventions” representing in effect, the surplus, the *lumpen proletariat*.

The term “second economy” was defined in governments’ “Towards a Ten Year Review” as follows:

*“The second (economy) is a mainly informal, marginalised, unskilled economy, populated by the unemployed and those unemployable in the formal economy”. (Ten Year Review, 2003, quoted in Faull, 2005).*

This characterization of two economies diverts what government should really be asking, which is why we have such high numbers of people who are “unemployable in the formal economy”.

While the new democratic government inherited a society with deep structural divisions resulting from Apartheid policies, we argue that these divides are now exacerbated by new dynamics that further marginalize poor people and have resulted in a doubling in levels of unemployment since 1994. However, until government acknowledges that the effect of marginalisation of workers and people from the formal economy is caused by the method of operating by the formal economy, sanctioned and sometimes sponsored by government itself, the nature of the destabilizing social and economic exclusion will continue. By appealing to a structural disjuncture between two parallel economies,

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<sup>7</sup> Why the state has decided upon the 6% growth rate is not known. It is the same growth rate that was included in the GEAR plans. What alchemy this figure should effect on poverty and unemployment remains however unknown.

government is not able to do this, but instead traps itself into a perpetual propagation of these dynamics.

#### **4. The historical roots of the marginalisation of black people from the mainstream economy.**

In his 1998 speech during a debate on national reconciliation, then deputy president Mbeki famously said:

*“...South Africa is a country of two nations. One of these nations is white, relatively prosperous, regardless of gender or geographic dispersal. It has ready access to a developed economic, physical, educational, communication and other infrastructure.*

...

*The second and larger nation of South Africa is black and poor, with the worst affected being women in the rural areas, the black rural population in general and the disabled. This nation lives under conditions of a grossly underdeveloped economic, physical, educational, communication and other infrastructure.*

..

*This reality of two nations, underwritten by the perpetuation of the racial, gender and spatial disparities born of a very long period of colonial and apartheid white minority domination, constitutes the material base which reinforces the notion that, indeed, we are not one nation, but two nations.*

*And neither are we becoming one nation.”*

South Africa’s industrialization was fuelled by the discovery of diamonds and gold in the 1860’s and 1880’s respectively. The realisation of profits for imperial Capital from these mineral resources was maximized by the exploitation of cheap black African labour.

In order to ensure optimal reproduction of labour, the former colonial government, and later white governments of the Republic of South Africa introduced a legislated strangulating latticework of repressive policies and legislation that systematically dispossessed black South Africans of the right to own land except on reserves, the right to operate businesses, to accumulate surplus, as well as the right to adequate human capital development. The foundation of these laws was the 1894 Glen Grey Act, the “predecessor of the native reserves and thus also the later Bantustans” (DBSA, 2005). The subsequent 1913 Native Land Act and the 1936 Native Trust and Land Act restricted the black African majority to 13% of the total area of land in South Africa (DBSA, 2005). These Acts restricted black Africans’ rights to live and move to various reserves, located in regions far from the industrial developments, which despite stated policies to decentralize industrialization,

remained under- developed with low levels of employment, as can be seen from the following extract from the Report, on behalf of the Secretariat, to the plenary session of the Central Committee of the South African Communist Party, October 1973.

*“The planned reduction of Black presence in White areas was to be accompanied by the creation of job opportunities in and near the so-called Bantu homelands by a process of industrial decentralisation. The efforts in this direction have produced results which can only be described as farcical. In the “border” regions, a grand total of 78,451 jobs were created for Africans in the eleven and a half years from June 1960 to December 1972. Inside the homelands themselves, the figures are even more pathetic. According to the Government-supporting Afrikaanse Handels-instituut, only 8,000 new jobs have been created in all the Bantustans in the last ten years.”*

Black Africans were allowed into other areas on extremely restricted passes. The system of reserves, which outlawed the rights of black Africans to accumulate surplus and to build up wealth on the reserves (later, “Bantustans” or “homelands”) which was deliberately prohibited through regulations on the right of ownership and tenure of land rights of ownership of livestock and access to grazing (Wolpe, 1972), and dealt the final fatal blow to the black African pre-capitalist peasantry (Farred, 2000).

What is the link that we see between historical policies of racial dispossession and current policies that result in retrenchments despite steady economic growth growth?

Writing in 1972, Wolpe argued that in addition to the basis of racial ideology, the more compelling logic in the development and continued enforcement of the reserves was that the economy required the establishment of reserves in order to provide for the very reproduction of the exploitable labour necessary for the capitalist industrialization and economic development of South Africa<sup>8</sup>. Today, despite Constitutional imperatives (that operate both vertically and horizontally) which guarantee the rights of dignity and equality, the formal economy continues unsanctioned to operate in a manner that exploits the poor and working class and exacerbates unemployment. To avoid having to admit this, the poor and unemployed are separated into a discrete, parallel economy. Sanitized, the formal economy continues to make use of cheap and increasingly casualised and vulnerable labour as it wishes, without any need to see to the sustainability of the reproduction of labour.

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<sup>8</sup> This is discussed at greater length in section 8 below.

What we have seen is an unanticipated deepening of the crisis of unemployment – a doubling of the rate of unemployed people in this country, and yet we have also seen an increase in the rate of GDP growth and an increase in the share of national income of profits at the cost of wages. This is not sustainable; the state will not be able to both allow business free rein, and have enough resources required to really impact on growing levels of destitution. Only if we acknowledge the fatal flaw of the two economies discourse will we be able to begin to address this.

**5. The development of economic dualism in the President’s discourse.  
From two nations to first and third worlds to two economies.**

The President’s introduction in 1998 of the concept of a nation divided by race and economic interests (the “two nations” speech) was quoted above.

In August 2003, writing as President of the ANC on ANC Online, (Bold Steps to end the ‘Two Nations’ Divide), President Thabo Mbeki described the South African economy as including both a first and a parallel third world economy in one country. The first world economy was

*“modern industrial, mining, agricultural, financial, and services sector of our economy that, everyday, become ever more integrated in the global economy.”*

This economy had directly benefited from state intervention:

*“Many of the major interventions made by our government over the years have sought to address this “first world economy”, to ensure that it develops in the right direction, at the right pace.*

*It is clear that this sector of our economy has responded and continues to respond very well to all these interventions. This is very important because it is this sector of our economy that produces the wealth we need to address the many challenges we face as a country.”*

According to the President, the first and third world economies are however structurally disconnected from each other, to the extent that we should not assume that any wealthy produced in the first world economy will naturally trickle down to the third world Economy.

So growth of the formal economy will not transform the lives of the poor and marginalised. Instead this will be done by directed government programmes which will direct necessary resources into the non formal economy in order to grow it up to a level that it can be integrated into the formal economy. A clear case of separate development.

It is important to note a couple of things that are emergent in this letter.

The first is that there is no expectation that the formal sector should alter in any way its practices and try to direct its resources to those marginalised from it. Hence the slogan used by many that we are “waiting for business to come to the party” should not be entertained, since the state in any event does not recognize this as desirable, plausible, nor possible.

Secondly, this leads us to the emergence of the role of the state for the marginalised, as being an interventionist, developmental state in relation to the poor, directing resources through its programmes to the poor, through which intervention, the state seeks to see a reduction in *“numbers of those dependent on social grants, by enabling them to pull themselves out of poverty by engaging in gainful economic activity and exercising their right to human dignity”* (ANC Online, August 2003). T(his is despite the fact that social grants are directed at those who fall outside of the labour market, namely children, old age people and people living with disabilities.)

Thus, as Faull (2005) concludes, the growth path for the first economy is to continue as it is set. Government’s role in this will be to increase investment, to reduce the costs of “doing business” by auditing red tape and labour protection, and to provide the skills needed for growing the economy (not by creating more affordable tertiary education, but by easing the policies around importing skills). As an interventionist, developmental state for the “second economy”, the government shall seek to transfer targeted resources, and to provide work opportunities, skills, development and information, specifically through the roll out of social grants, the extension of the Extended Public Works Programme and small scale agriculture. Through these interventions, government expects that the informally employed, the under- and the unemployed will be developed sufficiently to enter the formal, first economy.

But before being beguiled by the allure of this clean and clinical approach to addressing the stench and hunger that characterises life for those waiting to be developed, we need to answer whether we do have two separate, parallel economies in South Africa, or whether we have a single economy in which the formal economy is allowed to profit at the cost of the poor.

To answer this we consider an analysis of the operation of a parallel “second economy” as it existed under a communist control economy.

## **6. A digression into semiotics on economic dualism**

According to Theodor Shanin (1988), the term “second economy” was coined by Hungarian social scientists to refer to the “part-time or contractual work outside the mainstream of waged labour” in Hungary during the period of communist state control of enterprises. It was a way, in one’s own time and outside of one’s designated work, to make extra money. The “second economy” did not include illegal activities – these were collectively referred to as the ‘black economy’, but was a self-referential invisible economy that existed as a separate entity from the formal, state-controlled economy. It was not illegal, it was just not recognized, and so existed as an economy structurally distinct from the formal economy in which the same actors performed very different functions. Thus the term “second economy” referred not to those operating at the margins of the formal economy, but to a distinct peripheral parallel economy with its own dynamics.

Shanin refers to the dynamics of interaction between a “core” and “peripheral” economies. According to him, a core economy can operate with separate, peripheral economies. These peripheral economies are pushed to the margins due to their differential structures. Parallel peripheral economies usually initially reproduce themselves, but ultimately disappear.

We can use this theoretical lens to interrogate whether the poor and unemployed in South Africa really do constitute a second, peripheral alternative economy to the main, formal economy.

In Government’s Ten Year Review we are advised that we have “two economies” that “persist in one country” (Ten Year Review, 2003). The foregrounding to this statement however does not describe two distinct economies, but describes instead how we have seen “notable shifts in the sectoral allocation of employment”, resulting in increasing unemployment in sectors that provided employment for unskilled and semi-skilled people (mining) as well as in the public sector, and an increase in jobs have been created in the services sector – reflecting the imperatives of GEAR.

These “notable shifts”, do not, in our view, warrant the Review’s conclusion that “(O)ne of the major consequences of the change in the structure of the economy is that “two economies” exist in one country” (Ten Year Review, 2003), instead they represent the effect of macro-economic policies deliberately chosen.

Again, in an article published in ANC Today Online 26 November 2004, ([Approaches to poverty eradication and economic development vii: Transform the second economy](#)) we find a reiteration that there is a structural fault that divides the “second economy” from the “first”, and it repeats with approval the description of the “second” economy found in the “Ten Year Review”, namely that the second economy is a “*mainly informal, marginalised, unskilled economy,*

*populated by the unemployed and those unemployable in the formal economy” which is caught in a poverty trap, unable to accumulate enough resources to break out, and thus in need state intervention.*

This does not sound like a complete, parallel economy, but a rubbish can of people extraneous to the needs of the sleek, lean and mean formal economy.

Again we find an inherent contradiction in the article’s internal logic. While stating that the two economies are separated by a structural disjoin, the article then states that this “second economy” is actually linked to the “first economy” as follows:

*“It is linked to the first economy by the extent to which it can still supply the cheap, unskilled labour this economy may require. It survives on money transfers sent by family members who have been able to secure regular or occasional employment within the first economy, as well as social grants and elements of the social wage provided by the democratic state”.*

There is thus clearly no separate internal dynamic of the “second economy”. It consists of poor people, unemployed people and informally employed people who are dependent on aspects of the formal economy, whether on state grants, or remittances from people who are formally employed. These are people existing at the margins of the economy, not in peripheral economies.

The logic in the last quotation begins to steer in the direction of our argument in the final sector of this paper, namely that the existence of peripheral people is not an accident, but continues the logic that informed the development of the reserves and Bantustans, namely the need for a ready supply of cheap “regular or occasional” labour for the formal economy. First however, in conclusion of our examination of the formal/ second economy discussion, we shall consider in what ways the formal economy continues to impoverish and marginalize people.

## **7. Dynamics of the formal economy.**

Since 2000, South Africa’s national budgets have shown a mildly expansionary fiscal policy, but have retained a conservative monetary policy. In fact there has been no unequivocal announcement from the state that the principles informing the conservative and restrictive GEAR plan have been departed from. Again we see this as being indicative of the state’s reluctance to commit to a single and clear development path, assuming to itself the right to develop policies in an ad hoc manner. Despite this lack of clarity about what these macro-economic policies we are assured by both the 2005 and 2006 State of the Nation Addresses by the President that is well with South Africa’s current macro-economic policies.

Is this true, and is this true of the formal economy as a whole?

GEAR might have achieved some stability for the macro economy, but poverty and unemployment grew. ANC Today (2004) referred to the poverty trap of the “Second Economy” that prevents this economy from being able to “generate the internal savings that would enable it to achieve the high rates of investment it needs end its condition of underdevelopment.”

This view sees the “underdevelopment” and poverty of the poor and working poor as being caused solely by past pauperization, that would be set aside should poor people be able to save enough. But is this feasible?

Dynamics of impoverishment did not end with the demise of the Apartheid regime, according to Terreblanche (2005). He argues that the challenge of dealing with Apartheid underdevelopment backlogs was exacerbated by GEAR’s further “pauperization” of the poor through seven new poverty traps that have exacerbated poverty. These new poverty traps include the privatisation of basic services, the drop of worker’s share in national income from 60% in 1992 to 51% in 2002<sup>9</sup>, and an increase in unemployment as the business sector has been allowed to increase its capital intensive production, which has led to an increase in casualised workers outside the protection of labour legislation (Terreblanche, 2005).

Interestingly, the drop in share of worker’s income has taken place against an increase in labour productivity- Between 1982 and 1993, labour productivity grew by a mere 1% p.a., while between 1994 and 2002, labour productivity grew by 3.47% p.a. (UNDP, 2003). Thus the formal economy has been encouraged to make bigger and better profits, while the percentage of turnover allocated to wages has fallen.

The President stated that one can not expect the formal / First World economy to spread its resources to the poor/ Third World, and that there we should not expect any trickle down effect given the structural disjoins. We do not believe that this inability of economic benefits to improve the lives of the poor is due to the “structural disjoin” as much as complicit and conscious policies of both business and government. On the one hand, business is intent on reducing the proportion of wealth flowing to workers, while at the same time government has reduced income taxes by R72.7 billion since 1995 (Brait, 2006). Income tax is a clear method for redistribution of income from people who earn sufficient income to rate for taxation, to the poor and unemployed through state spending of collected revenue.

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<sup>9</sup> Which he compares to levels of about 70% in ‘normal’ countries.

One way in which economic growth is meant to benefit the poor according to trickle down theory is through an increase in employment and hence, in income into poor households and poor communities. However flawed this assumption may be, the inverse is however true. An increase in unemployment impacts not only on an individual but also his or her household, and community.

As a secondary impact of rising unemployment, according to Meth (2004), the total number of workerless households receiving no remittances from employed family or friends rose from 1.3 million in 1997 to 2 million in 2002, which represents an increase in number of people living in households receiving no remittances from 5.8 million in 1997 to 7.4 million in 2002. These are poor people who benefit neither from wage income nor from state spending on social grants.

Terreblanche concludes:

*“But what is perhaps of greater importance, is that it will be counter productive to intervene in the ‘second economy’ while the ‘structure’, the macro economic policy and the neo-liberal privileges granted to the corporate sector remain intact in the ‘first economy’. It is highly necessary to move towards a truly developmental state system in South Africa. But this system cannot be created in the ‘second economy’. It will have to be created in the South Africa economy as an undivided entity”.*

## **8. The second economy – the new Bantustan?**

As mentioned in section 4 above, for many political commentators up until the early 1970’s, the compelling rationale for the removal of black African people to reserves was explained as being one of racial ideology, which required black African people to be removed from visible “mainstream” white society, and allowed through a restrictive system of pass laws to engage with this economy as cheap, invisible workers.

Wolpe (1972) however advanced this position by analyzing the economic necessity of the Bantustans for South Africa’s industrial and economic development for the advancement of Capital. According to Wolpe, the establishment of reserves for workers was necessary in order to subsidize the very low wages that were paid to black African workers. No worker would be able to support a family on these wages, and so the reserves were required to house and feed the families of workers, and thereby guarantee the reproduction of the labour force.

The prevailing economic structure for many black Africans was predominantly a pre-capitalist peasant system which people initially sought to reproduce in the reserves (Wolpe, 1972. Farred, 2000). This was however thrown into conflict

with the conditions that mainstream racial capitalism imposed on workers and directly on life on the reserves, and eventually the latter destroyed the former.

Farred describes this process thus:

*"..capitalist relations of production, properly introduced at the time of the discovery of diamonds, expanded and magnified by the discovery of gold, relentlessly set about destroying pre-colonial agrarian production. It firstly brought **all** agriculture under the sway of capital. It systematically, if unconsciously at first, removed the material requirements for an independent black peasantry – land. Beside the semi-feudal dispossessions conducted in the Boer Republics, the colonies of the Cape and Natal, reduced the African masses to the status of migrant labourers as early as the 1880's. The Land Act of 1913 formalised a pre-existing condition of landlessness, only adding to it greater restrictions and further limitations, not only on access to land but the use of black agrarian labour. The small and lingering peasantry survived here and there but soon as agricultural workers (share croppers) and then only those who managed to evade the various apparatus of the state, migrant labour and starvation" (2000).*

The resultant conditions on the reserves have been described thus:

*"In all the homelands unemployment, land and cattle shortages, starvation, regular famines, horrifying levels of infant mortality, etc. are creating conditions of crisis proportions. These discarded people will be on permanent standby to meet the labour need of white farms and industry. It is migrant labour of a new sort with the bulk of this reserve army of unemployed having no visible means of subsistence until they are conscripted by a recruiting officer. This is the reality for the overwhelming majority of people in the Bantustans." (Report, on behalf of the Secretariat, to the plenary session of the Central Committee of the South African Communist Party, October 1973)*

Wolpe posits that the very nascent industrializing economy which we now see as the actively marginalizing mainstream core of the South African economy required the act of marginalisation of black Africans to feed its own development. This parasitic development however always contained the seeds of its own destruction within it. Given the deliberate underdevelopment of the reserves (later homelands and Bantustans) required to keep households dependent on the meagre cash wages of migrant workers, the reserves failed to provide the infrastructure required to perpetuate the pre-capitalist African economic existence. This pauperization of conditions and livelihoods of people living on the reserves in turn led workers to protest against their low wages, and fed into a spiral of protest and repression that eventually led to the downfall of Apartheid, but not necessarily of the dynamic driving the need to pauperise and marginalise people from the formal economy.

According to Slovo (1976) there was eventually a realization by the Apartheid government, due to both internal and external pressure, that these conditions could not continue, and there followed a process of “reforms” which included the establishment of “self government” of the Bantustans. This attempt to sanitise the system of reserves is described in a statement quoted by Slovo, attributed to the former Deputy Minister of Bantu Administration Jansen, who said people should move away from the notion that Bantustan’s are “dumping grounds for people we don’t want in South Africa”. These reforms to promote self-government Slovo condemns as being an attempt to “legitimize a monstrous historical swindle”.

Slovo notes that every oppressive system needs a legitimizing ideology which deflects opposition to it into channels that bypass the main issues. For Slovo, the notion of self-government within the Bantustans was the attempt of the Apartheid government both internally and externally to provide the ideological legitimization for Apartheid, but it was clearly an attempt that was exposed for the sham that it was.

Bearing striking parallels to the theory that one could attain redistribution through higher levels of economic growth was the view held by “liberal gradualists” who espoused that the policies of segregation and Apartheid would eventually be undermined by economic growth. This was a view that failed to understand the economic interests of the system of reserves (Wolpe, 1972). The lie to this theory, according to Slovo, was evidenced in the fact that despite three decades of “*..dramatic ..economic advance, during which more and more Africans have been sucked into the modern industrial sector, has in fact been accompanied by a widening of the gulf between the races, by greater and not less repression, and by a growing gap between white and black incomes*” (1976).

How does this detour into history relate to this paper’s argument against the use of the “two” economies divide?

As noted above, the President acknowledged that people in the “second economy” are linked to the “first economy” “by the extent to which they can still supply the cheap, unskilled labour this economy may require” (ANC Today, 26 November, 2005). In other words, the surplus people in the “second economy” are still required as a resource to be drawn on by the formal economy to the extent that it needs their labour power, but by the same token, these people – the unemployed, the underemployed and those involved in informal economy activities – are seen as having an existence structurally disjoined from the mainstream. They do not even inhabit the same “world”, but are citizens of a “third” world, where they must stay until they have, as a result of the specific

separate interventions of government, developed to a state at which they can be integrated with the “first world”.

Slovo’s “No Middle Way” (1976) is clear that the racial supremacy of Apartheid was essentially about the monopolistic control over all the “essential means of production”. According to the ANC (quoted in Slovo, 1976), *“(T)o allow the existing economic forces to retain their interests is to feed the root of racial supremacy and does not represent even a shadow of liberation”*.

What we need to ask is whether these economic interests have indeed structurally moved from the hands of the few to serve the needs of the majority, or are these interests still being maintained and supported by the state with the exception of a few bee equity deals. While the formal laws that kept the majority of black South Africans in the Bantustans have been removed from the statute books, what else has changed?

In an unedited version of an article that appeared in the Sowetan on 13 January 2004, “Democracy has by-passed the poor”, the General Secretary of COSATU, Zwelinzima Vavi, writes of his home village, Sada,

*“There is a belief amongst the folks that Sada was cursed. So they blame this for the neglect under the apartheid system and their total neglect by the Sebe sons and Brigadier Oupa Gqozo. Now they blame the same curse for being neglected by the democratic government. How could people be subjected to this humiliation ten years after their freedom?”*

## **9. Conclusion**

This paper does not argue that there is no desire on behalf of the democratic government to address the huge legacies of Apartheid and racially based dispossession and oppression. Our concern however lies in the fact that government policy makers seem unwilling or unable to acknowledge that the fault that causes economic and social division and inequality in South Africa was a carefully constructed structural fault, and as such needs structural revisioning to address. This cannot be served through the perpetuation of a dual notion of our society and our people, as we have seen that what this encourages is the notion of separate development initiatives, with large amounts of money being poured into “first economy” interventions such as the Gautrain, and “second economy” initiatives based on government’s flagship of Extended Public Works, that provides between 3 and 6 months’ “job opportunities” to poor and unemployed people which is not sufficient to break out of the dynamics that continue to bind people in poverty.

We have witnessed an increase in semantic spins that obscure the real issues, that channel us into asking the wrong questions. We do not oppose the roll out of EPWP's, but we do believe that the cost/ benefit equation raises serious questions about their sustainability and possible structural impact on enabling people to break out of poverty. Likewise we think that the ASGISA driven sectoral analysis of informal trading conditions are very necessary to ensure that local governments develop appropriate infrastructure and trader friendly by-laws.

We do however believe that the decision by Statistics South Africa to reclassify "discouraged work seekers" as not being unemployed is an underhand attempt at sleight of hand. In the face of year on year tax cuts, the notion that levels of social spending could be unsustainable is also underhand, although it satisfies the concerns of international credit rating institutions that worry about runaway "populist" expansionary government spending. We also think it unfortunate for the President to be quoted<sup>10</sup> as stating that people should stop abusing the social grant system and start to earn a living.

It is at these times that we need to be asking the pertinent questions – if the President is correct- why would people give up their children to their relatives to qualify for a slightly higher grant; what are the circumstances in which these people live that they would make these choices? We need to ask what unintended consequences government's policies are creating, such as the means test that creates a poverty trap, discouraging people from earning small incomes. And we need to ask where these jobs are that poor people are meant to engage in to move themselves off this so-called dependency on social grants, to move out of the "second economy" and graduate to the "first economy".

Because it is when we ask these questions that we begin to see the links between the first and the second economies. That the people who are unemployed used to have work as miners, but were retrenched when mines decided that due to the exchange rate, certain veins were no longer profitable to mine; that these people were deemed not useful (unemployable) in an economy that is seeking to compete internationally with high technology export driven production, or are not able to find jobs in call centers, answering queries by people living half way across the world, about their banking accounts when these former, unemployed miners have never had a bank account. It is then that we begin to see policies

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10 City Press, 26 February 2006. Page 1. *"Mbeki also conceded that some government policies meant to help the poor have had an adverse, disempowering effect in that some now fold their arms in the false belief that government would provide all they needed. 'It is incorrect to sit and say we will wait for government to do everything for us. It is a worrying thing for us. It is clearly wrong to take away a sense of initiative from people,' he said."*

made on a macro-economic level and private sector responses to such policies impact directly and are inextricably linked to the lives of the poor.

Essentially we need to pack in the attempt to legitimize an economic system that continues and/ or exacerbates the conditions of economic oppression. We need to turn away from trying to accommodate an apparently self-regulating market economy and an interventionist developmental state in one nation, and with a sober assessment of what space we have, what space we can contest in our carefully chosen open, globalised economy, and move to close the gap.

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