

## HOMEGROWN STRUCTURAL ADJUSTMENT: IMPLICATIONS FOR SERVICES DELIVERY AND PUBLIC HEALTH

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### *Introduction: The tyranny of economics*

At the time of writing, as superficial confidence in the economy is increasing, it is crucial to begin with some hard facts. As data released in the March 1997 Budget Review shows, the Finance Ministry's Growth, Employment and Redistribution (GEAR) strategy was already evidently failing within six months of its June 1996 launch. Economic growth in 1996 was more than 10% lower than what GEAR predicted, and fixed investment nearly 20% lower. The real value of the rand fell by 16% in 1996, far worse than the 8,5% decline predicted in GEAR at mid-year. With the main interest rate (the Bank Rate) pushed up by 2% during 1996 (reaching 17% by year-end), and inflation at 7,4% during 1996, the average real (after-inflation) rate of interest charged by the Reserve Bank exceeded 9%, far higher than GEAR's 7% 1996 prediction. Worst of all, job creation was negative in 1996, a far cry from the 126 000 new jobs predicted in GEAR.

Indeed GEAR must fail even on its own terms, because of the contradictions involved in applying "homegrown structural adjustment" to an economy characterised by a stagnant private sector shedding jobs at a record rate, a strong labour movement, the highest real interest rates in South Africa's history, the lack of competitiveness of many manufactured products in global markets (and the low historic world price of raw materials and agricultural products), and most government departments' failure to implement those aspects of the Reconstruction and Development Programme (RDP) that would have provided balance by raising levels of consumption and production by poor and working-class South Africans.

What does this programme, and its failure, imply for health and social policy in post-apartheid South Africa? This paper considers not only how "neo-liberal" (free-market) policies have permeated national economic management, but how the same approach is encroaching upon social policy, particularly in relation to infrastructure and services. Primary health care is at present perhaps the only major exception to the government's new Golden Rule that all state services must be priced at "cost-recovery" levels. Yet the fact that crucial services such as water, sanitation and electricity are being subjected to cost-recovery principles has negative implications for infrastructure investment, for usage, and ultimately for public health as well. The paper concludes by positing some of the alternative approaches to macroeconomic management that would release the balance of payments and fiscal constraints that appear to have hamstrung progress on the social policy front.

### *GEARing down*

GEAR is based on a combination of economic models, including those of the Reserve Bank, Development Bank of Southern Africa, World Bank and Stellenbosch. All are extremely orthodox, with biases that favour neo-liberal policies and that treat markets as reliable, well-functioning institutions. In June 1996, the models collectively predicted that if the desired policies were adopted, South Africa would reach 6% sustainable growth and create 400,000 new jobs per year by the turn of the century. Immediately, some of the assumptions in the model – particularly the exchange rate, level of

government revenues, willingness of workers to accept wage cuts, and extremely high levels of job creation in the wake of three years of 'jobless growth' – came into question. But in addition to the assumptions, GEAR's internal logic deserves a brief comment.

The new strategy began by labelling government spending – particularly 'consumption' expenditure on wages and services (which includes health and social expenditure) – as excessive. The overall deficit (the amount government borrows beyond what it raises in revenue) would be cut in half by 1999, with the social wage most likely to fall victim to cuts. Corporate and personal tax rates were also regarded as excessive, and future revenues would be enhanced through economic growth, increased efficiency in tax collection, taxation of retirement funds and higher excise tax rates for tobacco products. This meant that the potential for progressive income tax policies – where workers pay lower rates and the upper- and middle-classes pay higher rates – would shrink. With further income taxes cuts for the rich, the Finance Ministry would face pressure to raise more money instead from Value Added Tax, a regressive tax on consumption which leaves poorer people shouldering more of a burden for supporting government.

The Reserve Bank's control of the money supply and interest rates would continue unchanged. As noted at the outset, the Finance Ministry projected that the Bank Rate would fall to 7% in real terms within six months, to 5% in 1997 and 4% by 1998. But even if the projections had been accurate, 7 or 5 or 4% rates were still extremely high in historical terms.

The Finance Ministry was so confident of the macro-economic strategy's success that it promptly stepped up liberalisation of exchange-controls as applied to both foreign investors and South Africans. Foreign companies were now able to borrow locally much more easily and local institutional investors were granted much more scope to expand their international portfolios by exporting funds to foreign stock markets. Full exchange-control liberalisation continued to be the Finance Ministry's objective, and International Monetary Fund Managing Director Michel Camdessus took special pains to endorse the phased approach. Manuel continued to confirm that all remaining controls would be dismantled as soon as circumstances were favourable, notwithstanding what was sure to be a flood of money out of the country.

The Finance Ministry also anticipated the exchange rate (the value of the rand) to strengthen rapidly in the second half of 1996 and to stabilise at levels equivalent to the currencies of South Africa's main trading partners over the subsequent five years, a prediction that proved seriously flawed. Trying to offset more costly imports to some degree, the Ministry of Trade and Industry continued lowering tariffs so as to encourage competition from imports.

But even with cheaper imports due to trade liberalisation, the overall effect of economic dynamics would, GEAR predicted, lead to slightly higher inflation. Hence the Finance Ministry asked labour and business for support in maintaining the stability of wage and price levels.

Private sector employees were expected to lose 0,5% of their after-inflation salary this year (though public sector gravy train beneficiaries would be granted a 4,4% increase). Wage and price stability would, it was claimed, also be pursued through a broad national social agreement (although this has not been seriously negotiated so far).

In addition, rising productivity of workers and of capital required greater labour-absorbing investment and enhanced human resource development. Compared to South Africa's competitors, local firms scored poorly, and government claimed it would consider the feasibility of applying a mandatory payroll levy so as to increase the effective investment in training. Overall though, such strategies were often much more a matter of rhetoric than reality. GEAR contained none of the details necessary to determine whether assumptions about the benefits of human resource development for labour productivity were realistic.

There were other provisions in the strategy aimed at enhancing domestic fixed investment. New tax incentives for new manufacturing investments were part of a broader set of supply-side measures aimed at promoting investment and stronger export competitiveness. Others included a six-year tax holiday for pre-approved projects that meet job-creation and other criteria; the promotion of twelve sectorial clusters which are considered of high priority in our industrial policy; reform of industrial finance; and special arrangements for better access to international markets. Small and medium-sized enterprises would also receive added support.

Would such policies spur investment? Probably not, because the conditions for expanding the domestic market were not in place, and indeed the rate of GDP growth would, by all accounts, slow markedly in 1997. And while excess capacity was finally beginning to be used, there remained many closed plants and much mothballed equipment that could be restarted if a company wanted to increase production, without necessarily leading to new investments. Moreover, labour-saving investment continued to be the rule, with the multi-billion rand projects – Columbus, Alusaf, ISCOR retooling – characterised as extremely capital intensive.

Restructuring of state assets – government's euphemism for privatisation – was amongst the Finance Ministry's highest priorities, again with the objective of increasing efficiency and attracting new investment. The National Framework Agreement remained the basis for government and organised labour to air their differences, but notwithstanding the Agreement's non-operational status, government announced forthcoming privatisation and joint ventures in telecommunications, minerals and energy, agriculture, forestry, leisure and transport over the next nine months. The sale of six major regional radio stations had already been approved by Cabinet. Concern was repeatedly expressed by workers in such industries that their wages and jobs would come under enormous pressure, while consumers who had hoped for access to cross-subsidies for increased access to electricity, telephones or recreation would be disappointed as more 'commercial' values predominated in parastatals, leading to increased price competition for the accounts of the major users and less interest in the low end of the market.

### ***Infrastructure investment in question***

The Finance Ministry also anticipated greater public sector investment, including better education and health services, housing, land reform and infrastructure for businesses and households. Yet if we look closely at the details – particularly regarding investment in basic needs goods and services – we find a surprising reliance on many demonstrably ineffectual policies.

Grand programmes to build a million houses have been hijacked by hostile banks and hesitant construction firms. Although more than 125 000 housing subsidies were delivered by government between 1994 and 1996, fewer than 25 000 of these included loans from banks that allowed people to build proper houses. In contrast, during the last year of apartheid rule, the National Party regime built 20 000 houses, because they didn't rely as much on commercial banks. The market-oriented approach adopted by the ANC government – cynically termed "toilets in the veld" by even Minister Sankie Nkondo-Mahanyale in 1995 – is "bank-centred", not people-centred, yet the banks not only failed to deliver loans at scale, but continue to "redline" (discriminate against) millions of black South Africans.

Other social policies are also under attack from neo-liberal principles. The Lund Commission agreed on budget constraints which slash the level of benefits to women-headed households. World Bank-designed land reform and restitution are proceeding at a snail's pace, leading to budget cutbacks in 1997. Even the best intentions – free primary health care for all, redistribution of educational resources, women's reproductive rights, youth recreation, attention to the needs of disabled people – are being foiled by lack of facilities in the townships and rural areas.

From a public health standpoint, one of the worst developments in social policy was that the Municipal Infrastructure Investment Framework (MIIF) was also designed, in the initial stages, by World Bank teams which resorted to their legendary stinginess. The RDP mandate for infrastructure was impressive – “The RDP integrates growth, development, reconstruction and redistribution into a unified programme - the key to this link is an infrastructural programme”. But experts from the World Bank, Development Bank of Southern Africa, Housing Ministry and even Jay Naidoo’s RDP office, and later the Department of Constitutional Development (DCD, centre of inter-governmental funding relationships and hence infrastructure grants) decided upon several key principles:

- South Africa could not afford anything more than toilets in the veld (partially-serviced sites);
- that these be provided under conditions of increasing privatisation (which could soon entail as much as a tenth of all municipal services); and
- that even in urban townships with good access to bulk infrastructure provision in the general vicinity, service standards for households earning less than R800 per month would be cut dramatically: toilets limited to ventilated pit latrines, water reduced to yard taps (i.e., not within the dwelling), and electricity provided in the form an 8 Amp metered connection. (Indeed, the early 1995 World Bank version of the infrastructure framework called for communal taps and no electricity.)

Such low standards were imposed because the DCD consistently refused to consider desperately-needed cross-subsidies via national tariff reform for the ongoing (recurrent) costs required to pay for water, sanitation and electricity. This refusal to even consider the tariff financing mechanism that was explicitly mooted in the RDP dates to the late 1994 drafts of the infrastructure framework coordinated by the World Bank.

Can government sell an infrastructure package that includes a high proportion of pit latrines? Not only are indications grim in “African” and “coloured” townships that have already experienced bloody payment-related clashes with authorities (which are known across the Third World as “IMF riots”). These include Eldorado Park, where several people died in battles over excessive service charges in early 1997, or Tembisa in mid 1996 where a private security firm killed numerous protesters in a riot over transport costs. The politicised character of service charges is reflected in various kinds of urban municipal strife across the country, thus, in a bizarre shift that reflects residual apartheid-era arrogance and a misplaced culture of entitlement, white Sandton brats continue to boycott their rates.

But even more worrying than the occasional eruptions of popular alienation, and the fact that – according to the Finance Department in the 1997 Budget Review – more than 30% of all urban residents don’t pay their municipal bills, is that the new national policy, the Municipal Infrastructure Investment Framework (MIIF), could, unless altered by political pressure, lead to an unending future of this sort of local strife.

Consider the household services most needed by the majority of South Africans: provision of electricity and water/sanitation. At present, there are 4.7 million people without access to an adequate supply of potable water and 8 million lack adequate sanitation. The big questions of who gets what and for how much, are being largely answered by a team of Department of Constitutional Development (DCD) staff and consultants. Electricity has been the preserve of corporate interests, so it is no surprise that even three years after liberation, Eskom charges large firms just R0,07 per kilowatt hour of electricity, compared to R0,23 per kilowatt hour for the average domestic user. Cross-subsidisation is urgently required.

Water may be different, because the Minister (Kader Asmal) appears genuinely interested in supplying a minimal amount (25 litres per day) of services to people free, through a “lifeline” mechanism. But at this writing it appears that he will be overruled by conservatives; one indication was the budget cut his department – often celebrated for best delivery – suffered in March 1997.

But if Asmal loses, the most disturbing part of MIIF is that because water use will be considered too expensive for the poor, DCD has decided that pit latrines will be supplied to 10% of the people that live in the "urban core," an area that includes existing and new townships, inner cities and traditionally white suburbs. Likewise, on what is called the "urban fringe" – areas like Botshabelo and Winterveld – DCD expects 86% of all residents to have pit latrines (in rural areas, the planned infrastructure standards are even lower for 90% of all households). Such percentages may be even higher, in the event that GEAR does not deliver and 25-35% of urban households continue earning under R800 per month. People who presently live in fully-serviced urban neighbourhoods but who earn below R800 may find themselves gradually displaced to ghettos with inexpensive pit latrines, according to another DCD document on intergovernmental fiscal relations.

There are various political, social and economic problems associated with these dismal standards. First, it appears a recipe for resentment against local and provincial governments, which will be closest to infrastructure implementation. This is not only an issue of high political expectations, but also a matter of basic personal comfort and convenience. For example, the darkness that is required in a "ventilated improved pit latrine" – so that flies are attracted away from the loo – is known to cause fear in children, who defecate outside near the pit latrine instead.

Second, there are potential health problems. This is well understood internationally, for as a background paper to the United Nations Habitat Conference in 1996 noted, "Substandard housing, unsafe water and poor sanitation in densely populated cities are responsible for 10 million deaths worldwide every year, and are a major factor in preventable environmental hazards, which are responsible for 25% of all premature deaths worldwide." Although the MIIF's pit latrines are a major improvement compared with no sanitation, there would also be health benefits – mainly by reducing diarrhoea, a major killer of children – if government installed flush toilets and raised the standards of other forms of infrastructure. In particular, less time spent on treating illness would release more women's time for caring and productive activities.

In addition to the sanitation issue, concerns have been raised that the new infrastructure policy only provides low-income people with water piped to their yard, not inside the house. A variety of academic studies have reported a 40-80% reduction in infant and child deaths due to diarrhoea, thanks to the provision of piped water directly into the house.

Not only is it important to deliver water directly inside the home, it is also crucial to make sure that it drains away properly. Yet most people on the urban fringe (and 10% in the urban core) will not have drains, and will risk seeing water turning into dangerous puddles in their yards. A R300 "soakaway" will be provided to low-income families, but on average it is expected to remove 70 litres of waste water per person every day, which will be quite a challenge. According to David Sanders and Pam Groenewald of the University of Western Cape Public Health Programme, "In areas where water supplies have been improved without provision of waste water disposal the result has been a shift from one set of diseases to another." The same is true regarding inadequate stormwater drainage (another feature of MIIF for low-income areas).

There are also public health implications of inadequate electricity service levels (8 Amp supplies are not enough to provide for cooking and space heating), including continuing indoor air pollution from coal and wood, and associated acute respiratory infection, burns and paraffin poisoning. At present, there are estimates that over 3000 deaths per year can be attributed to lack of access to electrification. If electricity became the sole energy carrier in only half of potential households, this would lead to a 75% reduction in respiratory infections, 35 000 fewer burn incidents and 5000 fewer cases of paraffin poisoning.

In addition, public health is affected by road dust on untarred roads (which contribute an average of 16% to particulate pollution), and many transport deaths and accidents caused by low standards of roads would be preventable with higher levels.

Moreover, as Sanders and Groenewald conclude, "Many of the diseases related to poor infrastructure are contagious, and as such, have the potential to threaten the health of higher socio-economic groups in the vicinity, eg. cholera, malaria, dengue, filariasis, yellow fever and tuberculosis. It is shortsighted to provide a lower level of infrastructure when one considers the longer term potential for environmental degradation."

Third, environmental concerns have also arisen, in part because densely-packed pit latrines in urban areas are likely to contaminate local water supplies, requiring expensive purification. In areas with high water tables, dolomitic rock or other geotechnical flaws, pit latrines will be a disaster. Low quality stormwater drainage associated with the MIIF could also lead to flooding, erosion and the washing of human waste into surface water. There are also environmental effects associated with inadequate levels of electricity service, including continuing deforestation associated with the use of wood for energy.

Fourth, the costs of upgrading that must be done in the future – especially putting in a new water-borne sanitation – will be enormous. There are few successful cases of upgrading from pit latrines to flush toilets. The same is true for water pipes in rural areas. A recent evaluation of the Mvula Trust (which supplies water systems in poor communities) found, "It would be far better to plan for upgrading right at the outset. This will help prevent the kind of informal and under-financed upgrading which typically leads rapidly to system collapse. The per capita cost of schemes might rise somewhat, but will still remain well below the alternatives."

Fifth, the effect of MIIF on the apartheid city will cement and reproduce segregation. Urban pit latrines make it impossible to plan for social and class integration, because if a family with below R800 monthly income raises their income level and wants to pay for a flush toilet, they will be forced to move out of their community since individual upgrading is financially impossible. While early drafts of the policy ignored this entirely, the most recent acknowledges it to be a problem, but has no solution.

But in part because of grumbling from politicians, the early infrastructure policy – in which World Bank staff and local consultants completely ignored the RDP mandate to finance infrastructure through national tariff reform and cross-subsidies – has been improved in two ways. First, instead of communal taps, households will get taps in their yards, and instead of no electricity, a small supply powerful enough for a few light bulbs will be supplied. Second, low-income households may not have to pay R50 per month, as was initially suggested. A Finance Department fund (called the Inter-Governmental Grant) may possibly allow, during at least the short-term, a subsidy to pay for low-income households' basic consumption. But given the pressure self-imposed by GEAR, the Finance Department will likely reduce the intergovernmental subsidy fund from current levels of nearly R5 billion to a minimum amount (guaranteed by Cabinet recently) of R800 million per year. Such an amount won't be sufficient to cover most recipients, who will continue to face pressure from cash-strapped local authorities to pay for inadequate services. Worse still, there have been published reports that the World Bank will be invited in to assist with expensive infrastructure loans or guarantees, another blatant violation of the RDP's insistence on self-reliant development finance.

Certainly there should be enough government money available for a different approach, since Cabinet approved a 5-year target of spending 5% of the budget on housing, which would be R9 billion in 1998/9. Due to delivery problems caused by the bank bottleneck, the budgeted amount was just R4 billion for 1997/8. Regardless of whether decent housing is finally built, the infrastructure problem remains acute. When many households continue to get bills they can't afford for services that are not up to par, and when local governments fail to collect rates and service charges in townships, the most important point tends to get missed in the anger and finger-pointing.

That point, simply, is South Africa's inherited inequality, which is worse than any other large country on earth except Brazil. Such inequality must be addressed nationally (not just locally), through redistribution of resources away from the wealthy, who acquired them illegitimately during the colonial and apartheid eras. Hence Asmal is giving priority to charging white farmers (who drink more than half the country's water, mainly for free), pine and gum plantations (who drink another 15%), and big industry (10%). (Local cross-subsidies would leave out most of the major consumers.) Households use only 12% of South Africa's water, and of that 60% is used for watering gardens and filling pools in bourgeois suburbs, with a tiny proportion available for the majority's basic needs. Similar decadent consumption patterns exist in the electricity sector. Taxing big users slightly more to pay for a minimal supply of lifeline water/sanitation and electricity services to households – following which a much higher “graduated block tariff” could be applied, as the RDP suggests – is the antidote, and would also promote conservation.

But as it stands now, Asmal and others attempting to expand the social reach of government – like the Health Minister, Nkososana Zuma, whose offer of free primary health care stands in stark contrast to MlIF – are being undercut by the DCD's reliance on cost-recovery as the basis for service provision. Only pressure from the grassroots can reverse this latest neo-liberal assault on low-income people's living standards.

### **Pressure on health services**

In this context, it is worth briefly examining policy decisions made in the Department of Health at national level, which show that an alternative approach that confronts the neo-liberal doctrine is feasible. On the one hand, the Health Department has failed, at this writing, to advance its programme in the area of pharmaceutical industry reform and national health insurance, and it has failed to stem the potentially devastating influx of “managed care” – essentially insurance company purchase of entire health systems – which has done so much damage to the cause of public health in the United States. Such failings are understandable given the balance of forces. Reflecting the highly-charged policy environment, an August 1996 editorial from the conservative Citizen newspaper confirms the modus operandi of those opposed to Health Minister Nkososana Zuma's agenda:

*“We do not care for Dr Zuma's policy of socialising medicine in this country, of switching to primary health care and clinics and letting our hospitals become downgraded, her importation of Cuban doctors, some of whom are allegedly incompetent, and her forcing of young doctors into two-year post-graduate community service. But that has nothing to do with the issue. Dr Zuma can be judged in this instance only on the Sarafina 2 affair and the things she has done wrong in handling it. On that score, and on that score alone, she must be kicked out of the cabinet.”*

In reality, although “socialising medicine” (i.e., a state-run, community-oriented National Health System) was at one point on the agenda of progressive South African health workers, this was gradually watered down in ANC policy documents first to national health insurance and then to the promise of free primary health care for all. This, along with a clinic building and upgrading programme, the Primary School Nutrition Programme, and reproductive rights represent the Department's most important breakthroughs. Notably, these have all been successful because they deviated from neo-liberal orthodoxy. The dominant philosophy was articulated in the RDP as follows: “The whole National Health System must be driven by the Primary Health Care (PHC) approach. This emphasises community participation and empowerment, inter-sectoral collaboration and cost-effective care, as well as integration of preventive, promotive curative and rehabilitation services.”

Two subsequent Department of Health policy documents, *Towards a National Health System* and *Restructuring the National Health System for Universal Primary Health Care*, amplified the RDP

mandate in key areas: "Access to all personal consultation services, and all non-personal services provided by the publicly-funded PHC system will be free of charge to all permanent residents at point of service" although "where patients bypass PHC facilities and present at public hospitals for outpatient services, payment of an additional charge will be required, except in cases of emergencies, or where public PHC facilities are closed or not available." In many areas, the lack of clinics mean that PHC is de facto carried out at tertiary institutions. Their importance is further reflected in the appalling PHC record of the previous government, which necessitates tertiary care where preventative care would have precluded health status deterioration. Thus, since the 1994 election, the health care staff and hospital budget cuts that have been periodically announced, and often resisted courageously by health workers, negate the impression of progress and policy generosity on the PHC front.

Nevertheless, women have taken a major step towards equality by demanding and winning a hard-fought battle over reproductive rights, backed firmly by the national department. However, where women as direct sources of labour are concerned, progress has been far slower. The informalisation of employment has intensified the feminisation of poverty. To illustrate, whereas the RDP promised "the right to six months paid maternity leave and 10 days paternity leave" the Department of Labour's touting "regulated flexibility" in its controversial document, *Employment Standards Statute: Policy Proposals*, means only that "An employee is entitled to four months' maternity leave during which her security of employment is protected" and that "Every employee with more than one year's service is entitled to three days paid paternity or child-care leave during the year of the birth of the child."

What have the Health Department's generally (not uniformly) progressive policies translated to in practice? Since free health care for pregnant and lactating women and children under six was initially announced by President Mandela in his inaugural speech in May 1994, most provinces reported increases (between 20 and 50%) in attendance at public health facilities. The initial annual cost was R680 million, allocated on the basis of a needs-based formula. In April 1996 free primary health care was extended at the point of service to all who could not afford to pay. A 1995 study had documented that for 74 percent of African people, the cost of health services was a primary barrier to access.

In order to improve access to primary care, a major clinic building and up-grading programme was initiated in 1994. There was an inherited shortage of an estimated 1000 clinics (plus the need to replace 1000 others) in order to achieve a ratio of one clinic per 10,000 population – hence rendering meaningless the expansion of free primary services to many underserved areas.

The Primary School Nutrition Programme, which aims to address the problems of short term hunger, micronutrient deficiencies and poor nutritional knowledge, attitudes and practices, was implemented in September 1994. Given the need, the programme focuses on food provision to primary school children in rural and peri-urban areas. Since its inception about 5,5 million children in 15,871 schools have benefited from the programme. In addition, the programme resulted in the creation of about 9,000 employment opportunities and school attendance improved.

Such programmes cost enormous sums, and the Department of Finance has not proved amenable. The Health Department had planned to increase expenditure on primary health care from R4.873 billion in 1995-96 to R8.253 billion in 2000-01, representing average annual real growth of 8.3 percent. In contrast, real academic and regional hospital expenditures were expected to rise by 0.5 percent and 1.4 percent respectively. District hospitals, which received an increase in referrals from the PHC level, were anticipated to grow by about 2.1 percent in real terms annually. In addition to the shift of resources to PHC services, the formula for financial allocation to provinces was revised to correct historic imbalances which favoured the more urbanised and richer provinces of the Western Cape and Gauteng.

In sum, there have been major advances in health policy formulation in an attempt to redress the inequities of the past, between the races, between the urban and rural areas, and the vulnerable (notably the poor, women and children). Implementation of these policies has been uneven, and due to the nature and magnitude of the problems that confront the Department of Health, progress on many of the pressing issues will continue to be slow. In particular, the lack of intersectoral development programmes and projects – and indeed the drift toward neo-liberal policies in many related ministries – threatens to negate any of the gains from enhanced PHC delivery.

For as elsewhere in the world, South Africa's health problems arise as much from inadequate "basic needs" provision as from inadequate and inappropriately distributed health care inputs. As noted above, health status improvements will continue to be undermined by neglect of or insufficient provision of basic needs goods and services, including nutrition, housing, water and sanitation. Thus, the economic framework and development trajectory will itself influence health outcomes.

Further, the ability to implement most health programmes will depend on the active involvement of a conscious and participatory population. This has influenced the success and sustainability of immunisation programmes, nutrition programmes, disease control programmes, and the like across the world. Therefore, the political dimension of the country's development strategy will significantly determine the human infrastructure through which both development and health programmes can be implemented. Also, this will be important for intersectoral programmes, which are unlikely to be strong so long as they remain technical and top-down and not rooted in and demanded by organised communities.

Thus the Department of Health's progress has so far mainly been with respect to policies rather than on-the-ground reality. Where systems are functioning, they are mainly technically-driven. For example, the primary school nutrition programme risks remaining a food-handout programme, exploited by commercial food suppliers rather than a nutrition programme which starts to develop capacity in communities to address the underlying causes of undernutrition, including lack of household food security. Two examples of alternative approaches designed by non-governmental organisations in the Western Cape are community kitchens based at schools which have both generated some employment and provided cooked meals for schoolchildren at the start of the day; and child-to-child projects which entail schoolchildren identifying undernourished younger siblings and passing on information about nutrition to their parents. Yet such pilot projects remain unsupported by the Western Cape Provincial Nutrition Department which lacks the bureaucratic flexibility and resources to support these initiatives.

As ever, the future direction will depend upon the balance of forces between and among state fiscal managers, the private health sector, health workers and consumers (as represented by working-class organisations such as the trade union movement), in the context of the overall orientation of government to social policy. While the Department of Health is ahead of most other government departments and agencies, its ability to implement policies within a PHC framework (i.e. involving communities, mobilising other sectors, challenging inequities) will be constrained by the political and economic context within which it operates.

Can the economic constraints – particularly balance of payments (South Africa's relation with the international economy, which in turn now appear as the main determinant of interest rates) and the fiscal squeeze – be relaxed? Did the government consider an alternative to the neo-liberal macro-economic strategy?

### ***Conclusion: Is there an alternative?***

Whenever posing a more humane approach to economic and social policy, we typically confront the argument at the outset that there is insufficient money available in the fiscus. When considering this

issue, it is always useful to point out that the central state budget remains overwhelmingly weighted towards expenditure on useless and dangerous items. In 1997/8, for example, R40 billion of the R187 billion budget was allocated to repayment of state debt, the bulk of which was taken on during the apartheid era. While there are indeed local pensioners and bank depositors who unwittingly contributed to financing apartheid (through institutional arrangements they had no control over), and whose interests must be taken into account, some form of cancellation or rescheduling of domestic debt – especially the R50 billion held by banks and insurance companies – is now being placed on agenda by groups ranging from the South African Council of Churches (led by Catholic bishops) to the NGO Coalition to the South African National Civic Organisation. In addition, R10 billion is still allocated to defence spending each year, notwithstanding the total lack of any external threat to the nation's sovereignty.

In addition to cutting the budget in these two areas (and many others that reflect residual apartheid expenditures), additional state borrowing could easily increase the availability of funds for health-enhancing public investments. An infrastructure programme that provided water-borne sewage to all urban residents, for example, would cost R7 billion more than what MIIF has envisaged, which is well within reason and affordability. The cross-subsidies required to provide the basic lifeline water and electricity services discussed above are easily raised within each service sector without recourse to additional budget revenues.

Was growth through a more expansionary "fiscal" (spending) strategy of this type considered? Apparently not seriously, for government now contends that "even under the most favourable circumstances, this would only give a short term boost to growth since it would reproduce the historical pattern of cyclical growth and decline." Such a comment implies that, in contrast, the new strategy has outlawed the "business cycle," which is in reality the most permanent law of market economies.

"More importantly," warns GEAR, "in the present climate of instability a fiscal expansion would precipitate a balance of payments crisis." But government's strategy does not even consider a variety of interventionist tactics – four types are noted below – that could have substantially reduced the balance of payments constraint in order to allow greater fiscal expansion. This may be because most of the 16 economists who devised the strategy are from institutions such as the Finance Ministry, Development Bank of Southern Africa, World Bank, Reserve Bank and Stellenbosch Bureau of Economic Research, whose neo-liberal ideologies have proven ineffectual or downright oppressive, here and across the Third World.

For example, the Reserve Bank's November 1996 reaction to balance of payments shortfalls that in turn led to ever-larger local money market shortages was to raise the Bank Rate by 1%. This suggests the limits of the current policy approach and the need to consider other macroeconomic tools, used by many other states throughout history to address balance of payments pressure and money shortages, but apparently excessively unwieldy in Pretoria today.

First, leading officials could slow the drain on foreign reserves by cancelling or renegotiating the R90 billion outstanding apartheid-era foreign debt, delaying approval of capital flight by the major insurance companies, applying additional exchange controls and stamping down harder on illegal funds transfers. On such matters the Reserve Bank has been notoriously lax, indeed systematically corrupt (judging from high-level prosecutions and official investigations). After all, the RDP called for increased action against capital flight, but the Finance Ministry has thus far only loosened controls on the biggest institutional investors, who control hordes of speculative funds that should rather be seeking productive niches closer at home. And the financiers' constant insistence upon total liberalisation is by now widely regarded as an unpatriotic exercise in self-enrichment, since none can prove that a fully-convertible currency would encourage the much-desired inflows (foreign fixed investment, not hot money) that relaxation of controls on foreigners has not already achieved. Indeed, even the IMF last

year began to concede the need for new capital controls so as to prevent the kinds of hot money flows that melted Mexico down in 1994-95 and that were responsible for more than half of Johannesburg Stock Exchange trades last year and then for the run on the rand this year.

Second, the Ministries of Finance and Trade and Industry could reign in import profligacy – a crucial factor behind the slipping balance of payments and sliding foreign reserves – in two ways. Extra taxes could be imposed on consumption of luxury goods, which would have the effect of slowing both consumption of expensive foreign commodities and the depletion of hard currency reserves. This could be achieved through either a general tax on luxury goods (allowable under international trade law), or the general tax on imports which South Africa had in place until the March 1996 budget. In addition to taxing luxury goods, imports of capital-intensive equipment should also be slowed, in favour of an industrial strategy aiming to replace these with local machinery. No doubt imported machines and transport equipment (roughly than half the import bill) are desperately needed for new investment, but a disturbing amount of high-tech imports are labour-saving rather than labour-adding. In this sense trade policy also exacerbates the counterproductive biases – especially the missing middle of capital goods – intrinsic to what DTI director-general Zav Rustomjee calls, in his new book, South Africa's "minerals-energy complex." It is critical for the country to develop what are known as "backward and forward linkages" within local industry more vigorously, and to mop up the ever-larger pool of unemployed workers by deploying appropriate technology and labour-intensive approaches to production. (Only in public works construction and to a lesser extent through new investment tax incentives is this approach being taken even somewhat seriously.)

Third, the Ministry of Trade and Industry could delay or roll back its overall scrapping of import tariffs. South Africa is running far faster towards trade liberalisation than the World Trade Organisation has deemed necessary, and postponing tariff reform would dampen local demand for imports.

Fourth, in managing the money market shortage, Stals could "print money" to a limited degree (through various tools related to the Reserve Bank's sales and purchase of government securities). Or, alternatively, he could use his powers of financial market regulation to directly persuade – or force – commercial banks not to make available so much credit in so skewed a manner to the retail sector. The ironies of South Africa's "world-class" financial markets are lost on no one, for in spite of bank profits and JSE activity both hitting all-time records, low-cost housing policy continues to falter due to over-reliance upon banks and ownship bank branches and ATMs – urgently needed to foster savings – are scarce. And bankers unconscionably play Robin Hood in reverse by charging low-income bondholders 5% higher rates than the rich, again with the Housing Minister's approval. A much tougher, and more democratic, central bank would have not only firmly regulated banking behaviour, but would also have directed credit flows into areas requiring the greatest support, at below-market interest rates. Some say nationalisation would be required to accomplish this, given the character of private capital in South Africa (which may be true); whether or not this is the case, over the past four decades, East Asia provides various institutional examples of relations between the state and banking sector (nationalised, state-directed, state-influenced) to suggest that it is entirely feasible and sensible for the state to take greater control over domestic financial resources.

Having relaxed the balance of payments constraints through such techniques, a programme of fiscal expansion could be readily pursued. Again, this is not a particularly radical conclusion. Many governments learned a central lesson from the Great Depression – taught by the British economist John Maynard Keynes – which still-unseasoned ANC economic policy-makers have yet to understand: when private sector stagnation ensues (which it has in South Africa over a twenty-five year period), the state must play a strong role in economic stimulation, both with regard to regulating the private sector's activities and provoking greater expenditure through enhancing the ability of people to work and to consume.

So obvious is this argument to most economists who have had any exposure to Keynesian thinking, that even without invoking the four kinds of tactics outlined above, the World Bank came to the conclusion in its November 1993 report, *Paths to Economic Growth*, that South Africa could easily undertake a 12% deficit/GDP ratio for public investment that would rapidly generate fast growth and lead to a fiscal surplus within a few years. (Regarding the Bank's consistency in such matters, it is telling that when used in GEAR, the same World Bank model – and two Bank staff – was tortured sufficiently into confessing the opposite: that fiscal expansion was unsustainable. The earlier – perhaps more honest – report is also not entirely believable given that the Bank failed to specify the balance of payments constraint or suggest how to relax it.)

The four sets of tactics described above, plus fiscal expansion during times of stagnation, were standard operating procedures for the advanced industrial countries and the newly-industrialising countries during most of the post-war era. Only during the past fifteen years, as financial activity and commerce came to dominate production throughout the world, as neo-liberalism became a global phenomenon, and as conservative governments took power and dismantled other aspects of the state apparatus, were these gradually dropped from the repertoire of finance ministries, central banks and trade and industry ministries. They were dropped and various kinds of structural adjustment programmes were introduced instead, but not because the macroeconomic tactics had outlived their usefulness. Instead, the faddish *laissez faire* approach stems largely from pressure by international banks and corporations which had tired of saturated domestic markets and taken on greater global ambitions. These pressures gradually came to be transmitted through some of the nascent though extremely powerful world-state institutions: the IMF initially, the World Bank increasingly during the 1980s, and during the 1990s the World Trade Organisation (WTO, replacing the General Agreement on Tariffs and Trade). On this basis, the question is often posed, can South Africa resist?

The answer must be in the affirmative, not only because there are many unexplored spaces within the WTO (South Africa is outpacing the organisation and the rest of the world by voluntarily reducing tariffs faster than required, even though the sum effect of its tariff policies were not particularly onerous compared to dozens of trading partners, even the World Bank has conceded). In addition, thanks to popular pressure, the IMF and World Bank have largely been kept at bay, at least with respect to lending (although the influence of Bank staff in insider-sessions where policy gets decided, regardless of public debate, has been most insidious).

The problem, indeed, is that the message and the mechanisms of neo-liberalism are being carried effectively by local power-brokers, in particular the five largest conglomerates and financial empires which dominate more than 80% of the Johannesburg Stock Exchange (Anglo-De Beers, Rembrandt, Old Mutual, Sanlam and Liberty). In general, their interests are to deregulate the economy so as to lift barriers to their own profitability, to shift their internal firm resources from fixed capital into financial capital (which not only gets a higher return but is highly mobile), to liberalise exchange controls (so as to move apartheid-era wealth offshore), and to avoid the kind of commitment to building the country's productive structure that they had through most of the century. The "Brenthurst Group" which brings the titans of industry together has decisive influence with President Mandela. The mass media largely parrot a neo-liberal line of argument, partly as a result of ownership relations and partly because of the class-character of the (largely white, middle-class) media opinion-makers themselves. Breaking through this sort of hegemonic bloc appears formidable for those opponents in civil society, as well as residual progressives in the state.

But to invoke a different future, one in which basic needs are met, public health is truly a right and society witnesses a liberation in socio-economic respects that extends beyond a few tens of thousands of gravy train passengers, will indeed require a renewed struggle against the hegemonic bloc, to which we clearly must now add the top ANC economic policy-makers and the many unthinking politicians who have endorsed GEAR. Fortunately, there are exceptionally well-developed social

movements in South Africa which, although in a state of mild decay in some instances due to destaffing, defunding and misguided corporatist (deal-making) impulses, retain impressive political clarity and an insistence upon accountability from their politicians. This is perhaps a unique attribute, in considering not only post-colonial African movements, but those across the world. One reflection of their sophistication is the National Progressive Primary Health Care Network's position paper, "Macro-Economic Policy and its impact on Health, Development, Employment, Redistribution and Crime," which very sensibly takes forward the Keynesian perspective into concrete areas of action.

For those many primary health care workers who consider themselves to have far greater ambitions than mere Keynesian macro-economic fiddling, the historical political traditions to the left of the Keynesianism have also contributed enormously to understanding how the balance of forces can be radically overhauled when the existing economic system isn't delivering the goods, and how the "transitional demands" (as some revolutionaries term them) posed as an end-state by Keynesians are merely a first step. I think, however, there is still a consistency between demanding an end to homegrown structural adjustment, and engaging in struggle towards a future based on the socialisation and decommodification of primary health care, water, energy and so many other goods and services which at present are not getting to the majority due to the dominance of neo-liberal capitalism. To all of you, it is my honour to have been given a chance to present the recent twists and turns in some of the debates, as policy wonks in the Pretoria-Johannesburg nexus see them, and to get your feedback on how to become more effective in future advocacy.

*The author thanks the following colleagues for background research and information on public health issues: George Dor, David Sanders, and Yogan Pillay.*