

DISPERSING THE MIDDLE? MIDDLE CLASS FORMATION IN SOUTH AFRICA'S MANUFACTURING SECTOR.

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Abstract

- To examine how South Africa's post-apartheid industrial space is intersecting with the formation of middle classes.
- This inquiry involves tracing historical trajectory of how in the past, the South African state was successful in addressing poverty through industrializing.
- The paper argued that the kinds of interventions implemented by the state in the 1920s onwards, essentially created middle classes more than mere poverty alleviation.
- The bundling of initiatives such as labor protection, high wages, and housing had effective and lasting impact on white poverty and unemployment at the time.
- This bundling, the paper observed, set into motion intergenerational social mobility among previously poor whites.
- The paper concluded that middle class formation is absent from IPAP, the New growth Path and somewhat contradictory in the National Development Plan.

STRUCTURE

1. Background
2. Context for State industrialization initiatives in the 1920s and 1930s.
3. Definitional issues
4. Formation of black middle classes in the post-apartheid era
5. Industrial Policy and Middle Class formation

BACKGROUND

INTRODUCTION

- Historically, nation states have followed different methodologies to industrialize.
- Western Europeans, North Americans and the Chinese have followed manufacturing based industrialization
- India (and several developing countries) seems to follow a services led (mainly Information Technology and related services) industrialization.
- A common feature of European, North American and Chinese industrialization processes is the formation of a powerful middle class through expansion of manufacturing base.
- India lags behind China in middle class formation, although China's reforms started four decades earlier than India's.

INTRODUCTION (II)

- Like China, South Africa's current middle classes are created by the state and like India, these middle classes are mainly located in the services sector.
- Unlike China, Europe and North America, South Africa has hardly produced middle classes from within the manufacturing sector.
- Future sustainability of South Africa's economy will probably depend on diversified middle classes.
- The manufacturing sector is however characterised by:
 - high production costs,
 - low productivity and
 - inflexible labor market.
- The end of apartheid coincided with the rise of Asia as a highly competitive manufacturing hub, which has placed limits on the ability of South Africa to compete in the global market.

SOME COMPARISONS

India	South Africa
From 1992, the Gross Domestic Product grew at 6% with 60% of this growth recorded from the services sector (Singh, 2006)	Much of the growth since 1994 is from the services sector , mainly ICT (Stats SA 2013)
The services sector expanded from contributing 37% towards GDP in 1980 to 49% in 2002 (Singh, 2006)	The services sector has expanded from 19.8% in 1994 to 22.8% in 2012 (Industrial Development Corporation, 2013)
The manufacturing sector stagnated at 16% between 1980 and 2002 (Sing, 2006)	The manufacturing sector has contracted from about 20.9% in 1994, declining almost by half, to 12.4% in 2012 (Industrial Development Corporation, 2013).

CONTEXT FOR STATE INDUSTRIALIZATION IN THE 1920S AND 1930S.

SOME FACTS.

- In the start of the 20th century, South Africa was characterised by widespread unemployment and poverty.
- By the time the Union was formed in 1910, the economy was still largely agrarian, and, about three quarters of the population of six million people lived in the rural areas which were characterised by periodic droughts (Nattrass and Seekings, 2010).
- Some pockets of industrial activity was concentrated in Johannesburg, Witwatersrand and Capetown (Ibid).
- Feinstein (2005) records that in 1911 agriculture contributed 22% towards National GDP, against mining which contributed 27% .

BUILDING BLOCKS TO STATE INDUSTRIALIZATION IN THE 1920S AND 1930S

1. Locust invasion, drought and outbreak of the Rinderpest epidemic (1896-1898)
2. The second Anglo-Boer War (1899-1902)
3. First World War (1914-1918)

Post Crises urbanization

- After loss of livelihoods, many Afrikaners who relied on small scale and commercial agriculture moved to urban areas
- Thus the Afrikaner urban population the population quadrupled between 1900 and 1926 (Giliomee, 1995).
- This increased the level of urban unemployment

THE RAND REBELLION (1922)

- In 1921, the price of gold fell which led mine owners to lower production costs (See Tolcher, 2011)
- Roughly 25,000 white mine workers went on strike for a period of two months
- 5000 strikers arrested (Callinicos, 1980) over 200 people killed in the process of containing the tensions, and more than 15000 labourers were put out of work
- The South African Party then developed the Industrial Conciliation Act of 1924 but it was a little too late, it lost to the Nationalist Party and the Labor Party coalition

THE RAND REBELLION (1922)

- The Pact's policies premised from a diagnosis of white poverty on one hand, on the other, the objective of social protection of the white working class.
- Although there are at least three accounts on how social welfare state in South Africa started, Seekings (2006) seems more accurate in locating the social welfare formation in the 1920s
- The Carnegie commission was critical, but part of a series of commissions whose jurisdiction was limited to investigating white poverty. These were:
 - (a) the Transvaal Indigency commission of 1908;
 - (b) the Transvaal Relief and Grants-In-Aid commission of 1916;
 - (c) the Unemployment commission of 1922;
 - (d) the Employment and wages commission of 1926 and
 - (e) the Pienaar commission of 1927

TURNING POINT

- Through the 20th century, “The state ... implemented policies and established institutions designed to ensure that its white citizens enjoyed a ‘civilised’ standard of living, through a combination of high earnings, protected employment and a welfare state” Nattrass and Seekings (2010:3)
- On a basic level, social security and tight labor laws are primarily poverty alleviation initiatives because the beneficiaries require some system to cushion livelihoods, and these beneficiaries are either unemployed or easily replaceable workers.
- Although this protection of social space is beneficial to middle classes, it is not necessary, partly because middle classes have skills which enable social mobility.
- It is therefore reasonable to conclude that in the 1920s, the South African state initially sought to alleviate poverty through basic social and labor protection.

TURNING POINT (II)

- Hertzog's pact government is credited with coordinating the country's first inward industrial protection policy, which was developed in 1925.
- Industrialization efforts were part of South Africa's economic diversification during the 1920s for at least two reasons.
 - Global wool prices (of which wool was South Africa's leading agricultural commodity export) declined significantly
 - Gold prices had fallen, paving way for the Rand Rebellion blood bath.
- The state's response to falling global wool and gold prices was industrialization.
- Between the 1920s and 1950s, the successive governments established several parastatals aimed at industrializing the economy and creating social mobility towards middle classness.
- The first set of parastatals established in the 1920s were the Electricity Supply Commission (Eskom) and the South African Iron and Steel Corporation (Iskor)
- The Carnegie commission had diagnosed emerging low income housing on the fringes of mining and industrial areas
- Iskor was concerned that in cases of emergency employees would take long to respond, and therefore a decision to establish some few dwellings on site was taken.

SOCIAL MOBILITY LADDERS

- Adding to employment and housing, Iscor provided medical and pension benefits to white labourers.
- The white Iscor labourers also had access to the best sports facilities in the country at the time (Langsley, 1997).
- White labourers had the opportunity to become more productive at work, and, they had a chance to develop skills without competition from black labourers (who would only be allowed to do low skilled jobs).
- On the whole, white labourers who worked for Iscor did not only move out of poverty, they had an opportunity for upward social mobility.
- This social mobility was enabled through provision of affordable (yet decent) housing, social security in form of pensions and medical benefits, high wages, and protected skills development
- At the same time, other parastatals such as Eskom provided similar social mobility possibilities.
- In 1940, social mobility among urban white poor residents was further expanded through the establishment of the Industrial Development Corporation (IDC).
- The IDC was instrumental in the setting up of other industry based state corporations namely, the Phosphate Development Corporation (Foskor); the South African Coal, Oil, and Gas Corporation (SASOL); and the Southern Oil Exploration Corporation (Soekor).
- All these parastatals mopped up unemployment among whites, and provided social mobility ladders for white middle class formation.
- By the late 1940s and 1950s, there are no records of the kind of white poverty experienced in the 1920s and 1930s.

SUSTAINABLE SOCIAL MOBILITY

- The colonial and later apartheid state 'incubated' social mobility through the use of parastatals which operated in the manufacturing sector.
- After several years of this incubation, white labourers were then able to move horizontally to the private sector or vertically to even better paying opportunities -what Sorokin referred to as covering social distance (Sorokin, 1959).
- In otherwords, the state facilitated the formation of middle classes in the manufacturing sector.
- Although the global and national economic landscape had changed significantly by the close of the 20th century , white workers had covered a significant social distance for at least two generations.
- It is no surprise that white South African labor dominate the manufacturing industry on the larger part as employers and as entrepreneurs.

MIDDLE CLASS –DEFINITIONAL CONTESTS

COMMONLY REFERENCED DEFINITIONS

Authors	Focus
Rivero, Du Toit and Kotze (2003)	Occupational Approach
Visagie (2011)	Economic Approach (affluent and the middle strata methodologies)
Statistics South Africa (2009)	Formal housing; water tap in the residence; flush toilet in the residence; electricity as the main lighting source; electricity or gas as the main cooking source, and a landline or a household member having a cell phone.
Bernajee and Duflo's (2007)	\$2 to \$4 per day per capita
Kharas and Gertz's (2010)	\$6 to \$10 per day per capita

A MULTI-DISCIPLINARY DEFINITION

- This paper triangulates the definition of middle class as follows:
- First, I employ Kharas and Gertz (2010) persuasion which considers middle class households as those within a comfortable lifestyle. For Kharas and Gertz, comfort manifests in the ability to afford decent health care, decent housing, job security, higher education, reasonable retirement benefits as well as surplus income for leisure activities.
- Second, I rely on Southall's (2004c) occupational based indicator which categorizes as middle class those who hold employment positions in government or corporates.
- The third indicator is income based and accommodates Visagie and Posel's (2011) definition of middle classes as those earning between R1400 and R10, 000 per capita per month in 2008 prices
- The fourth indicator is locational, and related to housing. Middle classes are often identified through visible features such as living in suburbs, or owning large houses in townships and rural areas.

POVERTY ALLEVIATION VERSUS MIDDLE CLASS FORMATION

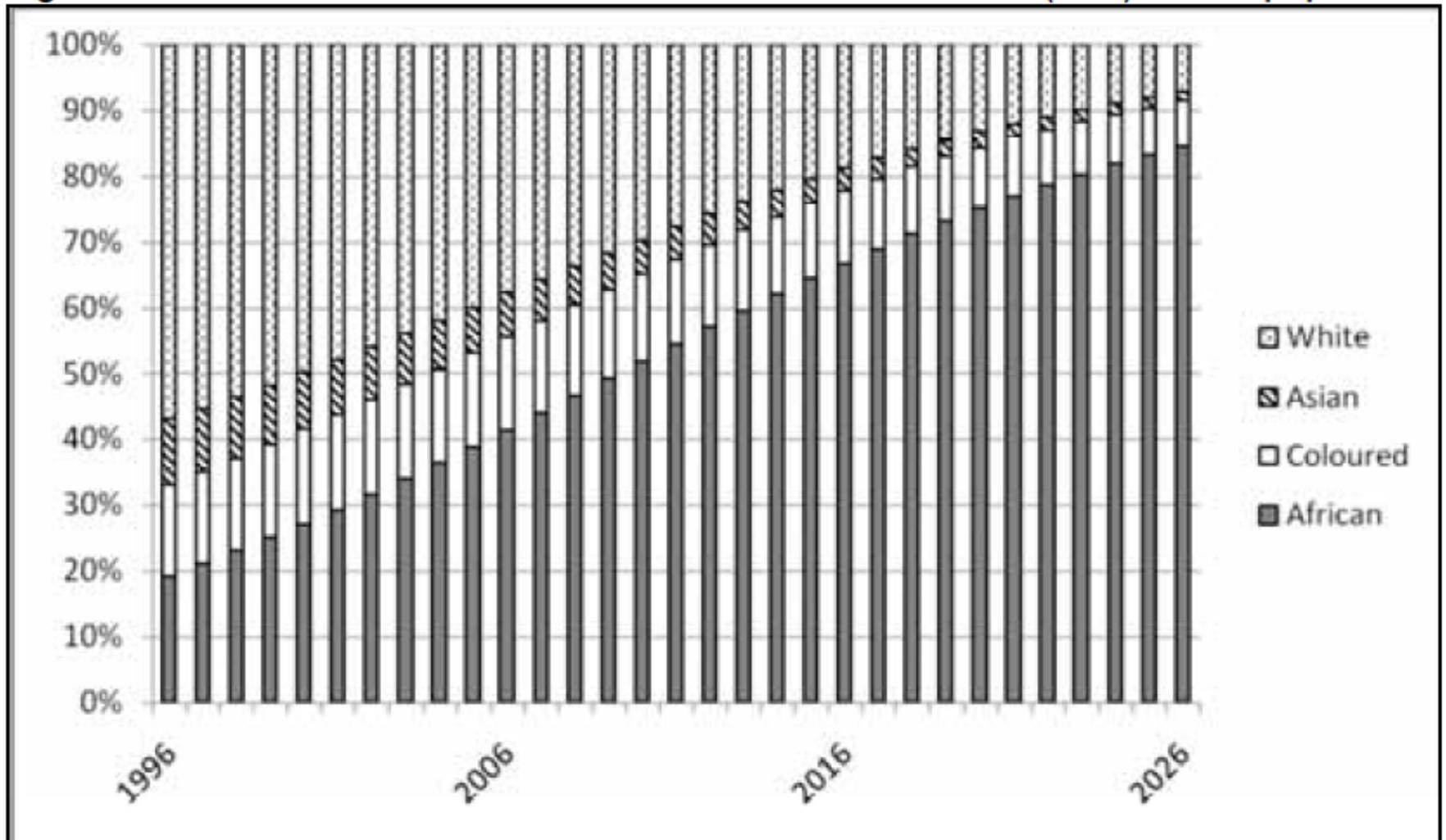
Middle Class Formation	Poverty Alleviation
Responds to poverty from a structural view	Responds to poverty in a minimalist view
Focuses on historical lines and treats humans as part of household systems	Is usually ahistorical and sees humans as individuals
Is qualitative in its response	Aims to cross a quantitative threshold
Slow but permanent impact on poverty and seeks to eliminate vulnerabilities	Fast but shallow impact on poverty and therefore maintains vulnerability

POST APARTHEID MIDDLE CLASS AND INDUSTRIALIZATION

MIDDLE CLASS BASED GROWTH?

- According to Stats SA classification, as at 2006, roughly 26% of all households in South Africa were considered as middle class, up from 23.4% in 1998 (Stats SA 2009).
- This expansion is largely attributable to increase in black African households, considering that as at 1998, already 85% of white headed households and three quarters of Indian headed households (75%) were middle class, compared to 41% of coloured headed households, and 15% of black African households (Stats SA, 2009).
- Between 1998 and 2006, the black African middle class rose with a seven percentage point, from 15% to 22%. Iheduru (2004) suggests that there are about 400,000 new salaried black middle classes every year

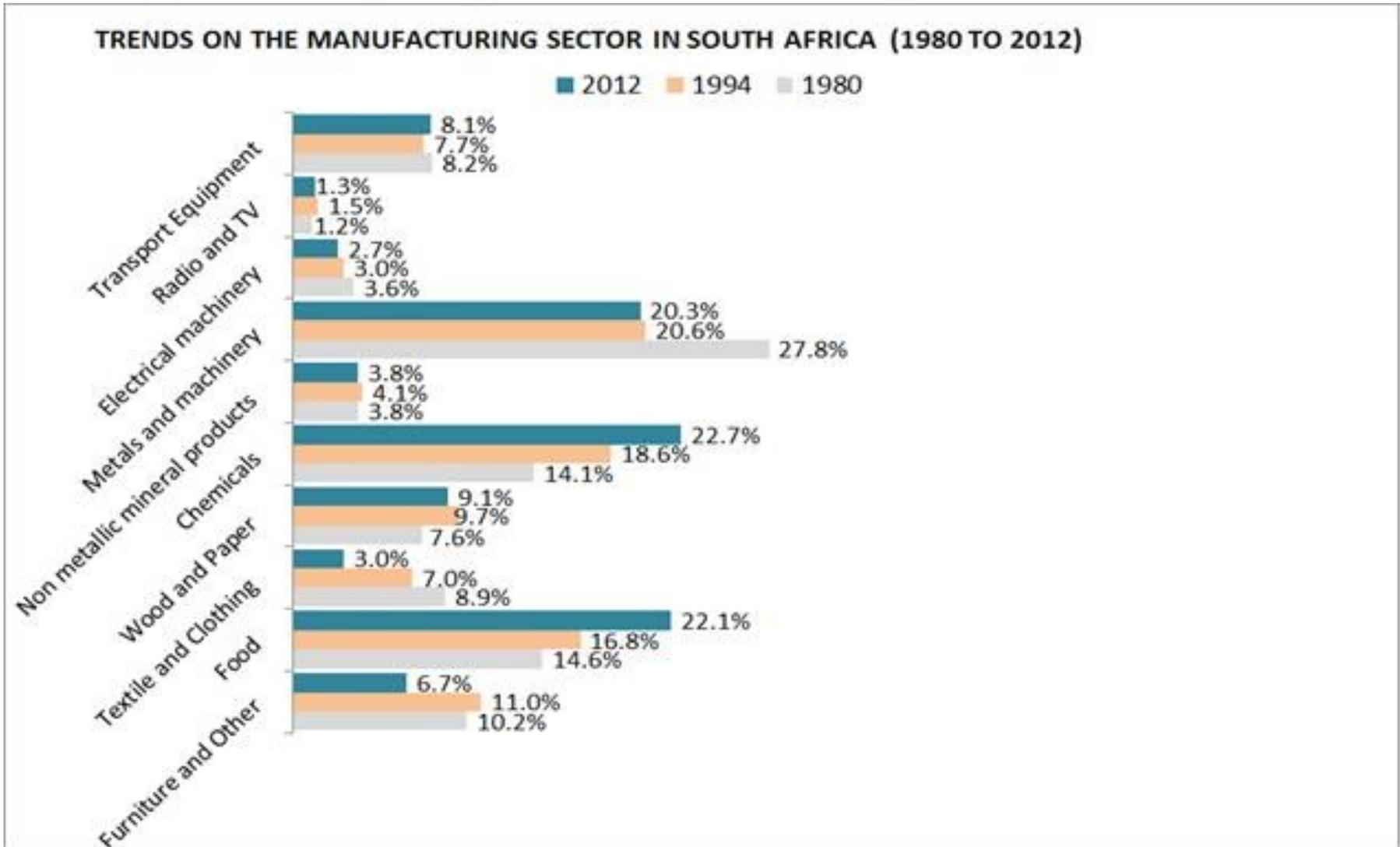
MIDDLE CLASSES BY STANDARD OF LIVING



FEATURES OF MIDDLE CLASSNESS

- The Black middle classes have mainly developed through affirmative action
- They are located within the State or doing Business with the state
- They are entangled with poor constituency
- There are at least one hundred and twenty nine (129) state owned enterprises all of which have played a major role in middle class formation.
- Of these, less than twenty are manufacturing based.
- The rest of the parastatals are mainly services based with a negligible number in the finance sector .
- What this suggests is that majority of the labor in these parastatals are based in the services sector, and only a handful in the manufacturing sector.

PERFORMANCE OF THE MANUFACTURING SECTOR



SOUTH AFRICA'S INDUSTRIAL POLICY: MIDDLE CLASS FORMATION OR POVERTY ALLEVIATION?

- South Africa's poverty is structural (Carter and May, 2001; Bevan, 2004 as well as du Toit 2005).
- This kind of poverty (structural) requires structural interventions, such as creation of social mobility ladders or in other terms, middle class formation.
- Small scale or minimalist approaches which seem to have characterised South Africa's poverty alleviation endeavours are poorly equipped to address structural poverty.
- What is more, the dominance of poverty alleviation theme within policy discourses offers limits to meaningful social mobility

INDUSTRIAL POLICY AND IMPLICATIONS ON MIDDLE CLASSES

THE FOCUS OF THE INDUSTRIAL POLICY

- Altman and Meyer (2003) suggest that industrial policy after 1994 heavily leans towards supply side interventions, contrary to the pre-1994 demand based interventions.
- Zalk (2014) takes note of the fact that the post 1994 era looks to downstream beneficiation and value addition for job creation, as opposed to the upstream intervention employed by the pre-1994 state.
- The job creation objective which has manifested in supply side downstream beneficiation is evident in the National development Plan, the New Growth Path and the Industrial Policy Action Plan

THE NEW GROWTH PATH AND NATIONAL DEVELOPMENT PLAN

- The New growth Path Framework and the National Development plan, identifies manufacturing as one of the six main sectors along with infrastructure, mining, agriculture, the green economy and tourism.
- The National Development Plan notes that the cost structure of the manufacturing sector is too high, rendering it non-competitive in low skills manufacturing
- The solution to a competitive manufacturing sector, according to the National Development Plan is to reduce cost structure so as to increase the skills base, address infrastructure challenges and stabilise the exchange rate
- The New Growth Path has a considerable focus on manufacturing, noting that between 2000 and 2008 the economy was dominated by consumption, thus the retail sector grew while other sectors including manufacturing declined.
- The NGP partly blames the contraction of manufacturing on strong Rand, which reduced competitiveness of the sector
- The NGP is explicit that its primary objective is to ensure employment creation through provision of support to labor intensive activities in light manufacturing industries, and only turn to upstream investment when full employment is reached
- The NGP further expects parastatals to achieve specific targets such as, 50,000 artisans by 2015
- The overriding objective of the NGP is to create jobs regardless of quality.

INDUSTRIAL POLICY

- The first Industrial Policy in South Africa was developed in 2007, although as Zalk (2014) observes, several adhoc interventions occurred before then.
- The Cabinet approved the Industrial Policy Framework in January 2007 and the Industrial Policy Action Plan in August the same year (Zalk, 2014).
- The Industrial Policy Action Plan is reviewed after every three years, and the current (2016/17 -2018/19) is the fifth iteration.
- There are four categories of manufacturing sub-sectors worth supporting. These are:
 - (a) Growth multipliers such as automotives, metal fabrication, transport infrastructure equipments, plastics, pharmaceuticals and chemicals.
 - (b) Strong employment multipliers such as agro-processing; forestry, timber, paper, pulp and furniture;
 - (c) Stressed sectors such as clothing, textiles, leather and footwear
 - (d) Skills upgrading subsectors which include crafts and related SMEs.

INDUSTRIAL POLICY (II)

- The latest IPAP 2015/16 - 2017/18 seem focused on state driven manufacturing and mentions only once, and in passing, that private sector will be crowded in.
- The core objectives of the 2015/16 - 2017/18 IPAP are:
 - (a) Provision of support to diversification through value addition
 - (b) Promote labor absorption manufacturing activities
 - (c) Enhance industrialization which models after inclusive growth
 - (d) Target continent wide industrialization and
 - (e) Move towards knowledge economy (See Department of Trade and Industry, 2016).

PROPOSITIONS

diagnosis	Proposition
The dominant use of the term 'job creation' and the alternate use of 'job support' masks several assumptions.	Need to deconstruct the job creation rhetoric
The notion that black middle classes are conspicuous consumers, and therefore they reflect the rough side of capitalism is misguided.	Middle Classes are highly entangled. Middle class formation might be a more effective way of addressing poverty
Neither 'social mobility' nor 'middle classes' feature in the IPAP and the New Growth Path. The NDP aims to 'moderate' the wages of the middle income group (Republic of South Africa, 2011:39) rather than facilitate their upward mobility.	Interventions need to go beyond 'pulling people from the cliff' to providing them with slightly more than basic livelihoods.
The attempts to straddle between capital investments and downstream beneficiation might be a tall order, both in terms of expenditure as well as what is, actually achievable.	Creation of mid-paying jobs, provision of social security and labor protection are likely to produce slower but yet lasting impact on unemployment and poverty
The State should enhance mid-level manufacturing opportunities within parastatals, but also provide incentives for state employees to exit into the private sector.	Consider state exit options and higher wages
The creation of black industrialists through access to markets, access to finance and skills development is likely to achieve more political than economic goals. Also, the IPAP does not specify how doing business with the state could be modelled to facilitate private sector based expansion of middle classes.	Incubation options