CIEE WORKSHOP FOR SOUTH AFRICAN POLICY MAKERS - JUNE, 1996

Some Perspectives on the Provision of Social and Economic Infrastructure

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Just three years ago, before the elections that give rise to the Government of National Unity, what has become known as the MERG policy document was being prepared. It was published a few months later in December 1993. I had responsibility for the chapter on social and economic infrastructure. In preparing it, I wrote a general introduction which, in the event, did not find its way into the document. What follows is the text of that introduction. It has only been amended marginally, and not at all in substance, in order to make sense as a stand-alone document. It is indeed remarkable how little it has needed amendment despite the dramatic changes that have occurred in South Africa. To some extent it is dated, especially with respect to the need to reform the duplicated and fragmented administration that was characteristic of the apartheid era. This is being addressed. In addition, the apartheid government was still in place at the time of writing and this might make the text read strangely in places, given the formation of the GNU and what now appears in retrospect to have become a secure political transformation.

What is surprising is the extent to which the analysis remains relevant today. This is because it remains firmly rooted in the longstanding material realities of South African society, whilst adopting a critical stance to the conservative market-based ideology of many of those proffering advice to the newly emerging South African policy makers. Further, it is no secret that the achievements in social and economic infrastructure over the past two years of democratic government have been disappointing. The reasons for this cannot be addressed here. Yet, without degenerating into a bout of "I told you so", the MERG document did emphasise that the major constraint on infrastructural provision would prove to be the institutional capacity to deliver and not financial constraints. To treat provision as if finance were the major problem would only serve to worsen delivery. These insights do appear to have been borne out. And South African economy policy has been and seems set to continue to be dominated by financial and fiscal conservatism without sufficient attention to the problems of how infrastructural provision is to be guaranteed.

Perhaps I can make three further points before presenting the introductory text. First, one of the conclusions in the introduction is that, whilst each distinct area of infrastructural provision needs policy to be developed specifically for it, inequitable provision across infrastructure as a whole tends to be mutually reinforcing to the advantage of those who are already best placed. In part, this is because the better-off are already better able to benefit from provision - as in higher education for example. Equally important, they are also better placed to pursue their interests through economic and political mechanisms. Accordingly, the commitment to rectify inequality in infrastructural provision needs to be particularly powerful, coherent and persistent - this is so even in advanced capitalist countries, it is especially important in the South African context of extreme historical backlogs in provision.

Second, now as at the time of the MERG Report, World Bank, IMF and much business ideology, especially that represented in the South African press, is heavily committed to keeping state expenditure to a minimum, to impose user charges where possible, and to rely on the market for provision to the maximum extent. This ideological stance, itself incapable of addressing the institutional capacity to deliver which is taken here to be the key factor, is less fanatically pursued in the case of infrastructural provision since this is often perceived to incorporate classic examples of market imperfections - externalities, economies of scale and distributional considerations. A further point can be added here against the pro-market ideology. This is by way of a response to the notion that the market is an effective mechanism for communicating information, allowing people to get what they want through measuring and responding to their ability to pay. But, in infrastructural provision in the South African context, this is not the problem. We already know what people want - it is health, housing, schooling and other basic needs. The focus must be on delivery.

Finally, whilst this introduction is more or less free standing, its significance can only be fully appreciated if it is read as a foreword to the treatment of the specific areas of infrastructural provision which are to be found in the MERG document. These too are necessarily dated in some respects, but they still offer considerable analytical, empirical and policy insights. Hopefully, the reader will be encouraged to consult one or more of these "case studies", whether for housing, schooling, health provision, or electrification.

SOCIAL AND ECONOMIC INFRASTRUCTURE

Draft Introduction

Whatever the position that different commentators have taken on the post-apartheid economy, there has been universal agreement that there is an urgent need for extensive infrastructural development. This is so whether the policy emphasis has been to provide for basic needs, to promote the private or the public sector, to forge a functional relationship between distribution and growth, or to restructure the levels and composition of state expenditure. All recognise that significant resources will need to be devoted to the provision of the different constituent components of what make up social and economic infrastructure.

Such unanimity is hardly surprising in light of the extreme inequalities that have prevailed under the apartheid system in access to housing, transportation, water and sanitation, to health and health services, to education and to the other amenities that are often, but not always, associated with public subsidy if not provision. To the extent that equal participation in society extends beyond the ballot box, it is incontrovertible that development of social and economic infrastructure should be a first call upon the resources of the post-apartheid economy. These, as much as the franchise, have been denied to the majority of South African's citizens. Not surprisingly, at the centre of post-apartheid reconstruction must be placed a substantial programme of infrastructural provision.

The chapter on social and economic infrastructure to be found in the MERG document focuses in particular on the macroeconomic impact of provision. It is not, however, possible to be comprehensive. One section deals with education (almost exclusively with schooling), another with some aspects of health, the third with housing, and the fourth with electrification. By the orthodox standards of what constitutes macroeconomics (and its distinction from microeconomics), each of these sections wanders much too far from the traditional concerns of fiscal and other aggregate balances in embracing the detail of infrastructural provision. This reflects our rejection of there in fact being a sharp division between macroeconomic and microeconomic concerns. It is necessary to assess, particularly in the context of a developing economy, whether macroeconomic effects will indeed be realised in view of the wide variety of constraints under which socioeconomic activity is undertaken. In other words, it is not simply a macroeconomic question of how much to spend and how it is to be financed, but also a series of "microeconomic" questions about the capacity to deliver.

Each of the separate components of infrastructure raises a number of different analytical and policy issues. But we begin by drawing out some of the factors which they share in common. The first has already been highlighted - the dramatic inequalities that characterise the inherited provision of infrastructure. But these inequalities, often to the extent of complete absences of some services for much of the population, are not simply associated with racial divisions, important though these are. The incidence of inequality is to be found across other socioeconomic characteristics - by gender, by rural/urban divisions, within rural and urban areas, between the employed and unemployed, by age and between different administrative authorities, and so on; and the provision of infrastructure within South Africa has, and will continue to have, a profound impact upon the southern African region.

This means that proposals to deliver infrastructure will not be distributionally neutral. They will favour some constituencies more than others, and often in ways that are not entirely predictable even where they are not overlooked. We have in mind, for example, the work and conditions of women whose unpaid labour within the unenumerated economy must be carefully considered. This is so for reasons of equity. Provision of infrastructure can considerably ease the burden on women whose lives are often dominated by the responsibility for what are perceived to be the menial tasks of collecting wood and drawing water - although women can be denied a livelihood as a result of more systematic, public provision, and the jobs created, the informal economic opportunities and the broader benefits are frequently appropriated by men. Further, the success and goals of policies can be thwarted if due account is not taken of their dependence on the wider socioeconomic circumstances in which they are implemented, such as the demands and stresses and strains placed upon the family, community and institutional structures.

A particularly important example is provided by old age pensions. These comprise the major part of the welfare system for blacks. As a result, they serve a much more important role than simply supporting the elderly. For they provide the rationale for a payments system, often in areas otherwise deprived of such facilities. But, more important, they constitute a general form of household income support underpinning payment for school fees, for example, as well as household expenditure as a whole. Consequently, pensions policy is more than a matter of how much, it also concerns how payments are administered and how they are integrated into economic and social life. They are especially important as a secure source of income, allowing credit to be advanced and accounts to be settled. Whilst pensions constitute a specific issue to which we will not return in the context of infrastructure, these considerations are of great relevance, even if in different ways, to the policymaking for the other components of infrastructure.

A second feature of infrastructural provision in South Africa is its extreme fragmentation. As a consequence of the heritage of apartheid, the ways in which the public sector operates is dependent upon a dozen or more replicated administrative authorities. Each of these has a potentially different relationship to central government, and each has its own internally differentiated characteristics - whether these be demographic, political or economic. Consequently, both the ways in which infrastructure is delivered and the levels of delivery are uneven in most instances, reflecting the different degrees of autonomy that has been allowed to the independent homelands, for example, and how it has been employed.

But, thirdly, such autonomy should not be exaggerated, and central government has continued to hold both the economic purse strings and the political upper hand. This has given rise to a compensating exercise of centralised control over the fragmented administration at lower levels. Far from signifying coordination and direction of an effectively decentralised system at lower levels, central government has reacted in a piecemeal fashion to the growing strains that have been endemic within South African infrastructural provision over the past decade. In short, in terms of administration of such services, the apartheid state has managed to yield a combination of the worst forms of overcentralisation and fragmented decentralisation.

The World Bank has reported that:

the currently extreme fragmentation of responsibility within metropolitan areas into a variety of local councils, boards, managements committees, and regional and provincial authorities, all operating in the context of a transitional period in which credible national policies on local government and housing are still to be developed. As a result, current investment in any given metropolitan area appears to be ad hoc, uncoordinated and frequently inefficient, and for the most part formulated on a project by project basis outside of any broader, more programmatic assessment of needs, priorities and strategies.

For the IDRC, the Canadian aid agency:

The Mission found ... extreme institutional fragmentation amongst actors within South Africa ... very significant fragmentation of authorities in provision of urban services. Not only do the different service areas and boundaries run counter to any principles of effective planning, but the separation of transportation from land use planning compounds the inefficiencies and inequities with respect both to access to, and provision of, key services and infrastructure.

The National Housing Forum's first newsletter observes:

The Government has **fourteen** separate housing departments ... and at least twenty six different ways in which funds flow to the end user - people who need housing. Very little comes out of these structures, which are filled with thousands of bureaucrats and technocrats. They have hundreds of hidden agendas which, with change in the air, they are all running hard to protect.

One commentator describes, "how South Africa came to have seventeen departments of welfare, arranged in four clusters, coordinated by three other departments and one secretariat". Such fragmentation and replication was supplemented by a "third significant feature of the 1980s ... the establishment of structures for coordination and control".

Another reports for water that:

The institutional framework within which water supply and sanitation services are provided reflects the current fragmentation of government in South Africa with no single agency at national level charged with ensuring that all households are adequately served. In this, the situation is different from that of electricity where ESKOM has a clear mandate to promote and plan electricity supply to most of South Africa, albeit through the agency of regional distributors in some of the homelands.

For infrastructural provision to a housing programme, the National Housing Forum finds that, "the institutional framework within which the providers of services have to operate reflects the current fragmentation of government as there is no single agency charged with ensuring that all households have access to basic services".

Thus, as can be repetitively demonstrated in broad programmatic terms as well as in the demands of detailed implementation, the current institutional environment is totally incapable of accommodating the tasks that it has been and will be set, irrespective of the specific design and content of policy.

Fourth, this is one, but not the only source of inefficiency in infrastructural provision. Segregated housing, for example, has required huge costs in terms of transport from townships to places of work. The lack of stability in households has led to high repetition rates and disruption in schooling. Failure to provide secure energy sources has been associated with long hours of work, usually female, devoted to the collection of wood fuel and at the expense of the environment. And so the list could run on.

Fifth, quite apart from the inefficient use of those infrastructural resources that have been mobilised, there is frequently to be found excess capacity alongside desperate need as a consequence of segregated facilities. This is true of schooling and health, of construction and electricity capacity. This is not a matter of insufficient effective demand in a Keynesian sense but of denial of basic infrastructure as a systematic consequence of apartheid imperatives.

Sixth, providing lessons for the future as well as for understanding the past and the present, there are very strong interactions between the different components of infrastructure as well as with other socioeconomic factors. These are often found to be mutually reinforcing whether negatively or positively, as in the relation between nutrition and health, between health and education, and between each of these and fertility, labour market access.

Seventh, whilst the previous six factors might be considered to be structural characteristics of infrastructural provision, they have been subject to change due to economic and political developments and the pressures upon, and responses of, government. The latter has been squeezed between the economic conditions of stagnation and limited borrowing and, in the political decision not to tax the privileged, the attempt to hold onto power as apartheid crumbles. As we now know, policies of oppression and violence, whilst by no means discarded, have been superseded by a political process and, to some limited extent, an economic process of dismantling the overt pillars of apartheid. Discriminatory legislation has been repealed, and government expenditure is being shifted towards provision for the disadvantaged.

But the process is absurdly and painfully slow despite the extent of the backlog to be remedied. Indeed, there has to be a question over the government's commitment to greater parity in infrastructural provision despite proclamations in policy documents to the contrary. For it appeals to the use of non-discriminatory policies but without adequately confronting how much (and often how such) inequality has been engendered in the past. This is particularly so in the government's ideological preference for reliance upon market forces and privatisation, even if this does, in practice, cloak substantial continuing state economic intervention. Not surprisingly, this has often continued to favour those who already possess advantage in income and wealth. In schooling and health, for example, the effect, through different mechanisms, has been to devolve facilities to those who have always enjoyed preferential access even if, or with the added advantage of, now passing responsibility for parts of their continuing costs to privileged users.

Eighth, current government policy has often embraced the principle of equality of provision at most in name alone. In particular, the failure to address the legacies of apartheid leads to a perspective upon equality of provision which, paradoxically, reproduces and even intensifies the practices of separate (and unequal) development. Specifically, backlog in provision to blacks is generally perceived to be a problem - too much demand in conflict with too few resources - whilst provision to whites is seen as adequate and not a problem. We consider it imperative that the separate components of infrastructure be treated as a whole, with existing and prospective provision being addressed simultaneously across the population as a whole. For reasons of efficiency, as well as of equity, the previously racially separate provision of infrastructure must be dismantled.

Ninth, then, these eight, previously listed, factors have influenced the separate components of infrastructure unevenly. And they have interacted with one another quite differently across the different aspects of infrastructure. Moreover, this has fundamentally reflected the balance of conflict across the separate arenas involved as the struggle to overthrow apartheid, to survive within it and to reconstruct the future have all been pursued. Whilst it is common to refer to a crisis of apartheid and each of its constituent parts (including infrastructural provision), South Africa has experienced acute critical phases of change alongside a chronic impasse in many areas of economic and social life, and violence has been a major source and consequence of this situation. And the results, as expressed in the pace, nature and extent of change, have been very different in health, education and electrification, etc in accordance with the different economic and political role that each has occupied. Local government legitimacy has apparently been more important in housing, electrification and education, for example, than it has been in the provision of health services.

But the nature of infrastructural provision is equally differentiated in societies other than South Africa. Each country has its own housing, energy, education, transport and welfare systems. We refer to these as "systems of provision", a term that could be equally applied to goods and services that are not usually designated as infrastructure - as in the food system, for example. Our analytical starting point is that each system of provision constitutes an integral structure, with a logic and dynamic of its own. It is structured by the different activities that take place from production through to final use, and incorporating finance, delivery, work organisation, etc. There is a different mix of public and private enterprise, and a different interaction with the rest of the economy (as in input-output linkages, for example) and with the society more broadly (as in the political and social significance of the provision concerned).

Both in assessing the current prospects for infrastructure and in formulating policies, it is essential to consider each of the aspects of the systems of provision involved and how they interact with one another. Otherwise, unforeseen bottlenecks might arise, insufficient finance be available, inappropriate technology employed, affordability prove elusive, or even redistributional objectives prove frustrated as compensating effects are displaced along the system of provision. Again, the incidence of such impacts cannot be specified in abstract but will be contingent upon the particular systems of provision to which they are attached.

These themes will be taken up in the following sections for different components of infrastructural provision. In principle, policy should be developed in considerable detail to cover the different aspects of the economic and social activity concerned. But our main concern is with the macroeconomic implications of infrastructural development. Although, given our approach, the divide between where macroeconomics ends and microeconomics begins is somewhat arbitrary, we will seek to address those aspects of provision which directly affect the functioning of the economy as a whole and those which are liable to prove major problems if not targeted by policy.

Despite our emphasis on the differences in the structure and functioning of the various systems of infrastructural provision, it is possible to identify certain common policy objectives just as some common features of provision have been identified under the apartheid system. Inequality in access has to be tackled. Administrative reorganisation is imperative, both in overcoming fragmentation and overcentralisation. There must be the creation of democratic accountability in the formulation, implementation and monitoring of provision. Internal reorganisation and expansion of provision will require training and mobility of the workforce. And it is essential to acknowledge that infrastructural provision has had and will continue to have major repercussions for southern African integration - not only in transport and energy but also in housing (given the continuing extent of migrant labour) and the training and disposition of the workforce more generally.

These considerations are not the ones that have been prominent in previous macroeconomic discussion of infrastructural provision, although they have been addressed in studies of the individual areas involved. Rather, focus has been upon what level of provision is to be made, whether it is affordable and how it might be financed. In particular, relatively conservative analyses have been concerned with how expensive it would prove to bring the standards of all to the level enjoyed by whites. This is an inappropriate approach for two reasons. First, it takes as standard, and as the starting point, what are the systems of provision associated with apartheid. But these have undesirable characteristics over and above those associated with inequity - as in the dominance of curative medicine in the health system, for example.

Second, cost and financing are not necessarily going to be the binding constraints on infrastructural provision, and focusing attention upon them may have the unfortunate effect of leading to neglect of the ability to deliver the intended services, even when finance is available. Further, the attempt to address infrastructural provision primarily in terms of financial constraints leads to an undue and often simplistic emphasis on the role of user charges and access to credit and funding. It is preferable, however, to give first priority to guaranteeing provision of the service and to ensure that the way in which this is financed or priced is not an impediment. This is not to suggest that all infrastructure must be provided free of charge, without reference to ability to pay or to recovery of costs. But these issues must be specifically situated in relation both to the system of provision to which they are attached and to the alternative sources of revenue and finance available within the economy.

Thus, it does not make sense to attempt to recover capital costs in user charges if this leads to under-use once facilities are in place, and may prevent facilities from being put in place as unaffordable. Such is clearly the case currently with housing, and it would also impinge upon schooling and health care provision.

In addition, the principle of free universal provision of basic services is an important one, even if the option of charging those who are wealthy is an attractive source of finance and equity. For, without such a commitment, the economic and political security of provision for the disadvantaged is always open to erosion and, in any case, the wealthy are often well-placed to retrieve compensation for the charges that they incur for infrastructure - whether through negotiation of cost of living increases or fringe benefits in employment, for example, quite apart from what is often a greater voice in government itself.

Almost without exception, the conventionally measured social rates of return to infrastructural provision are higher than private rates of return. There must be doubts about the methods and accuracy of such calculations, but they constitute a powerful case for funding provision. But, however well done, the imputed benefits of provision inevitably depend upon projecting the positive achievements of the past onto the future. From a policy perspective, the lesson to be learnt is that measures must be taken to ensure that delivery and use of infrastructure is effective. This will be a major concern of our policy analysis.

Finally, as mentioned previously, what follows does not provide a comprehensive policy package for infrastructural provision, even within the four particular programmes which are only partially covered. Accordingly, the costings that are provided need to be set against the overall fiscal balance of income and expenditure as well as against the priorities to be determined by policymakers both across programmes and over time.

**NOTE**

The discussion of on social and economic infrastructure is to be found in Chapter 4 of:

Making Democracy Work: A Framework for Macroeconomic Policy in South Africa, A Report from the Macroeconomic Research Group (MERG), published by Centre for Development Studies, University of the Western Cape, 1993, distributed by Oxford University Press, Cape Town.