

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

Jason Musyoka (Ph.D.)<sup>1</sup>

[jasonmusyoka@gmail.com](mailto:jasonmusyoka@gmail.com)

Department of Anthropology

Human Economy Programme

University of Pretoria

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## **ABSTRACT**

South Africa's re-industrialization has relied on policy tools such as the development of a National Industrial Policy Framework developed in 2007, and the National Programme of Action packaged as the Industrial Policy Action Plan (IPAP). So far there have been seven iterations, with reviews occurring every three years. The most recent IPAP (2015/16-2017/18) focuses on (a) public and private procurement, (b) leveraging the country's resource endowment, especially mining and (c) provision of support on manufactured exports. The third pillar involves among other strategies, the support for black industrialists through facilitating access to markets, access to finance and skills development. How do these initiatives relate to middle class formation?

This paper set out to examine how South Africa's post-apartheid industrial space is intersecting with the formation of middle classes. Efforts were made to trace 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. In examining the country's Industrial policy, the paper concluded that middle class formation is absent from IPAP, the New growth Path and somewhat contradictory in the national Development Plan. Several propositions on how the middle classes could be created in the manufacturing sector were presented.

## INTRODUCTION

Historically, nation states have followed different methodologies to industrialize. While western Europeans and North Americans have followed capitalist based industrialization, China has followed centralised socialism form of industrialization, and 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.

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. And yet, future sustainability of South Africa's economy will probably depend on diversified middle classes; a dispersal of these classes into the manufacturing sector.

The manufacturing sector is however characterised by high production costs, low productivity and inflexible labor market. Manufacturing firms are therefore unable to find cheap labor, and therefore employment creation has been anything but satisfactory. What is more, the end of apartheid coincided with the rise of Asia as a highly competitive manufacturing hub, which has placed some limits on the ability of South Africa to re-industrialize.

Re-industrialization has especially relied on policy tools such as the development of a National Industrial Policy Framework developed in 2007, and the National programme of Action referred to as the Industrial Policy Action Plan (IPAP). The most recent IPAP 2015/16 - 2017/18 focuses on (a) public and private procurement, (b) leveraging the country's resource endowment, especially mining and (c) provision of support on manufactured exports. The third pillar involves among other strategies, the support for black industrialists through facilitating access to markets, access to finance and skills development.

The task of this paper is to examine how South Africa's post-apartheid industrial space is intersecting with the formation of middle classes, mainly, black middle classes. More specifically, the paper will (i) show that historically South Africa has succeeded in addressing poverty through industrialization (although under different political conditions from the present) (ii) attempt to locate the formation (or *un*formation) of black middle classes in the country's industrial (mainly manufacturing) sector since 1994 (ii) seek to understand the kinds of internal and external dynamics which enable or disable the manufacturing sector's capacity to create black middle classes. Along this vein, the article

will ask, and attempt to answer, how the country's Industrial policy commits to middle classes formation (iii) finally, the study will make some propositions on how policy might be more effective in facilitating middle class formation. Unless otherwise stated, the study employs the term middle classes to denote black middle classes.

The paper is organized into four sections. The first section re-visits state industrialization initiatives in the 1920s and 1930s in relation to middle class formation. The second section draws attention to the formation of black middle classes, arguing that these are essentially employed by the state, or doing business with the state. The third section looks at definitional issues while section four examines how the country's industrial policy has intersected with the formation of black middle classes and goes on to put forward some proposals on how policy could be more effective in the objective of creating middle classes.

## **1. MIDDLE CLASS FORMATION THROUGH INDUSTRIALIZATION IN THE EARLY 20<sup>TH</sup> CENTURY.**

In the start of the 20<sup>th</sup> 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%<sup>2</sup>.

The state of the economy in the first decades of the 20<sup>th</sup> century was shaped by at least three socio-political crises. The main ones were the following.

(a) Locust invasion, drought and outbreak of the Rinderpest epidemic in 1896-1898;

In August 1894, the coastal belt of Natal and Zululand were invaded by red locusts, which stripped cane fields and millie fields of their leaves (Cripps, 2012). In 1895, a severe drought followed, and in 1896 another wave of locust invasion occurred, destroying about two thirds of all crops (See Minaar, 1990). In 1896 the pandemic wiped out over three quarters of cattle in South Africa, leaving the economy practically crippled (Ibid).

(b) The Anglo-Boer war which occurred between 1900 and 1902;

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<sup>2</sup> In 1910, South Africa produced 1/3 of the world's Gold (See Feinstein, 2005)

The Anglo-Boer war had a significant impact on the economy, as indicated by Wasserman (2005). The impact was much more devastating for the Afrikaners. Thus, the context of the war occurred in a period when:

“being an Afrikaner meant being subjected to an ethnic orientated economic liquidation under Martial Law by means of looting, confiscation, commandeering, and wanton destruction. In time only those Afrikaners who remained loyal managed to receive some relief. For the majority of Natal Afrikaners directly affected by the war, economic recovery never happened or took a long time to achieve” (Wasserman, 2005:396).

In Natal, the British military was especially involved in collecting of spoils (as food supplies) after the Afrikaners left their farms in escape. In other cases, Afrikaners were arrested, their cattle confiscated and sold on auction, and the proceeds given to the imperial natal government. One of the significant incidences as recorded by Wasserman (2005:401), which possibly constituted

“the greatest economic deprivation amongst Natal Afrikaners took place north of Ladysmith during and immediately after the advance of Buller’s Army in May 1900. In its northward drive almost all the livestock belonging to Natal Afrikaners amounting to tens of thousands of animals, were swept away by the ‘looting corps’”.

When the dust settled, the agricultural sector, which had been dealt a major blow by the Rinderpest outbreak in less than five years, shrunk significantly. And, there was no reconstruction programme for the devastated farming sector. The mining activities had been disrupted, leading to closures and loss of employment as well as capital.

(c) Adding to the above was the industrial revolution which started in the 1800s had generated transfer of capital, trade and technology across the globe. National economies had become increasingly integrated initially due to steam power forms of transportation, effectively eliminating Blainey’s ‘tyranny of the distance’ (Blainey, 1968). The disruptions of international trade between 1914 and 1918, affected South Africa, especially given that South Africa had increasingly become part of the commodity global value chains.

The noted crises were critical in destabilising the economic comforts of the Afrikaners in a significant way. Given that the livelihoods of the Afrikaners mainly depended on small scale and commercial agriculture (Seekings 2006), many rural based Afrikaner’s moved into urban centres in search for alternative sources of livelihoods. Infact, Giliomee (1995) suggests that the population of urban Afrikaners had quadrupled between 1900 and 1926. Many of the Afrikaner’s who moved to cities did not have skills to work in the mines or in the then emerging manufacturing or mining industries.

Their skills were mismatched with the urban economy which they were forced into by circumstances. This therefore led to urban poverty and urban unemployment among the Afrikaners.

Successively, each of the above crises shaped the Rand rebellion of 1922, which was about major (and later violent) protests of white workers who worked in gold and coal mines. In 1921, the price of gold declined significantly, which led mine owners to lower production costs, mainly the employment of African workers at lower wages, in the place of white mine workers who demanded higher wages (See Tolcher, 2011). Roughly 25,000 white mine workers went on strike for a period of two months. Jan Smut's government responded to the workers militancy with force, with 5000 strikers arrested (Callinicos, 1980) over 200 people killed in the process of containing the tensions, and more than fifteen thousand labourers were put out of work. Unknown to Jan Smuts, the writing was on the wall for his government. He lost to a coalition (referred to as a pact government) of Bert Hertzog's Nationalist party and the Labor party (which had white workers as the main constituency).

Before Smuts government lost to 'the Pact' it set up the Industrial Conciliation Act of 1924. The Act established employee- employer councils which had powers to prevent and resolve labor disputes, and determine wages (Callinicos, 1980). The Act however did not make provisions for employee associations (See Webster, 2001). It also excluded Africans (by not including Africans in the definition of employees), and rather left them to bargain for their conditions with their employers directly rather than through the councils.

The Pact government came into power during a period of widespread white poverty, given the events narrated above. Discussions and debates on poverty in the 1920s were especially focused on white (mainly Afrikaner) poverty, with social welfare forming a major part of historical accounts of the 1920s. The exact timelines on when social welfare started being implemented is contested.

Several authors point to the Carnegie commission findings and recommendations which were published in 1932, as the critical turning point for South Africa's social welfare (See for example Fourie, 2006; Iliffe, 1987; Fleitch, 1995 as well as Berger, 1983). For others such as Duncan (1993), the commission's findings were a result of a technical exercise, but the politicisation of these findings in the 1930s and 1940s ultimately led to a social welfare state. Seekings (2006) contests the foregoing arguments which rely on the Carnegie Commission as the essential basis for South Africa's social welfare state, arguing that the 1920s and not the 1930s, provide a more accurate estimation of the initial steps towards a social welfare state. Seekings (2006) draws attention to the formation of the Pact Government in 1924 as a critical milestone towards a welfare state, although pointing to at least five commissions appointed within a period of two decades, before the Carnegie

Commission. These five commissions, whose jurisdiction was limited to investigating white poverty 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 (Seekings, 2006).

Given the state of workers after the Rand Rebellion, and considering the build-up of urban (white) poverty, Seekings (2006) conclusion seems highly likely, that the first steps towards social welfare are traceable to the socio-economic conditions of the 1920s, with the Pact as the more likely political vehicle for advancement of social welfare. The rigid labor laws and social welfare initiatives were aimed at alleviating poverty. The unemployed could survive through social grants, and the low skilled or unskilled could be protected through rigid labor laws which among other benefits allowed an effective mechanism of collective bargaining, for example, the establishment of employer-employee councils. Thus, Nattrass and Seekings (2010:3) observe that through the 20<sup>th</sup> 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".

On a basic level, social security and tight labor laws are primarily poverty alleviation initiatives. This is so, because the beneficiaries require some system cushioning for their livelihoods, and these beneficiaries are either unemployed or easily replaceable as 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. This however was a short term objective. The long term strategy for Barry Herzog's government, if implicit, was to create middle classes through state led-industrialization. Thus, Hertzog's pact government is credited with coordinating the country's first inward industrial protection policy, which was developed in 1925. The Import substitution regime would become popularised by structuralist (development) theorists in the 1950s, the leading advocates being Hans Singer and Raul Prebisch. Industrialization efforts were part of South Africa's economic diversification during the 1920s for at least reasons. First, global wool prices (of which wool was South Africa's leading agricultural commodity export) declined significantly and second, 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 but also, importantly for this paper, 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)<sup>3</sup>. From its first operations in Pretoria in 1934, Iscor was successful in producing iron and steel on one hand, on the other, creating employment (See <http://www.arcelormittalsa.com>). In 1943 a second plant opened in Vereeniging. Immediately after World War II, the construction of an integrated steel works was started in 1947 in Vanderbijlpark and in 1952 it was operational (Ibid). Major expansions of the Vereeniging plant occurred between 1964 and 1969. In order to diversify the industrial sector from the Witwatersrand region, another integrated steel works was established in Newcastle in May 1969. And, between 1972 and 1977 extensive expansion of the Vanderbijlpark integrated steel plant took place, due to increasing local and global demand. With these expansions, Iscor had become one of the largest employers in the country.

Iskor however provided more than employment; it provided a social mobility ladder especially for white labourers. The Carnegie commission had diagnosed emerging low income housing on the fringes of mining and industrial areas (inhabited by Afrikaners who had moved to cities, and on starting to earn, they build low cost housing outside the commercial and industrial areas (Capetown, Pretoria, Witwatersrand and Bloemfontein) (See Langley, 1997). Iscor 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. This developed a housing scheme for white workers, mainly located 'on site'.

In 1934 however, the general works manager put forward a proposal underscoring "the great practical and economic inconvenience which existed due to the fact that there were no residences for staff and employees at or near the works (Langsley, 1997:68-69). The primary concern was that in cases of after hour 'call outs', Iscor would pay large sums of money given that the payments programme was on the basis of miles covered (Langsley, 1997). The racial segregation though, which characterised even the Iscor's housing scheme casts doubts on the 'emergency' argument. While Black employees were concentrated in compounds (also build by Iscor) under heavily congested and generally unhealthy conditions, their white counterparts lived in decent housing, in 'white townships'.

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

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<sup>3</sup> Eskom was established in 1923 and Iscor was established in 1928



(Langsley, 1997). White labourers had the opportunity to become more productive at work, and, they had a chance to develop skills without the competition from black labourers (who would only be allowed to do low skilled jobs).

It follows therefore that 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 (especially given that black laborers were only allowed to participate in low skills employment. 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). On the very basic level, 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.

The foregoing suggests at least two conclusions. First, the state played a central role in South Africa's industrialization from 1920 onwards. Second, the state was largely responsible for white middle class formation in the 20<sup>th</sup> century. What is perhaps unique about the colonial and later apartheid state middle class formation was that, white workers were 'incubated' in parastatals, mainly the parastatals which operated in the industry sector. After several years of this incubation, white labourers were then 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 20<sup>th</sup> century<sup>4</sup>, 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 often as entrepreneurs. Many manufacturing businesses tend to be intergenerational, therefore reflecting intergenerational skills transfer on one hand, on the other, a protected social

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<sup>4</sup> Iscor was sold in 1989, and in 1995, the then Deputy President Thabo Mbeki announced the search for equity partners for Eskom.

(middle class) space. Below I look at the state after 1994, and the kinds of interventions made as a methodology of black middle class formation.

## **2. DEFINITIONAL ISSUES ON MIDDLE CLASSES**

Like global literature trends, the bulk of literature on South Africa's middle class presents the growth of middle class, without clarifying on the adopted definition. Where the attempts to articulate a definition of middle class are made, the tendencies are to put forward sweeping statements, which do little to deconstruct the otherwise complex concept of middle class. The conceptualization efforts of South Africa's middle class are therefore numerous.

Rivero, Du Toit and Kotze (2003) on their part use the occupational approach, their justification of this approach being that it is Weberian as it is Marxist, and that there is what they dub as "a basic line of division between so-called white-collar worker [new black middle class] and self-employed and propertied (petit bourgeoisie) [old middle class]. This is an oversimplification of the middle class debate in South Africa.

In a less assuming assessment, Visagie (2011) joins the economic approach, effectively putting forward the affluent and the middle strata methodologies. On the affluent approach Visagie classifies as middle class households which earn between R1, 400 and R10, 000 per capita per month in 2008 prices. The middle income strata considers the median income as a reference point, then spreads the limits to between 50% and 150% of the median income. Visagie however does admit the limitation of his synthesis, observing that the South African context differs significantly from developed economies where the affluent household and the middle income strata household converge. This convergence is essentially a similarity of lifestyle –thus middle class lifestyle.

The South African government uses non-income indicators in its definition of a middle class. Thus, Statistics South Africa (2009) classifies as middle class households which have "formal housing...water tap in the residence, ...a 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" (Statistics South Africa, 2009:1). The combination of these indicators, (rather than individual indicators) according to Statistics South Africa constitute a middle class household.

Of course households which qualify into Stats SA classification as middle class, are more likely to meet Bernajee and Duflo's (2007) classification of a middle class household as earning between \$2 to \$4 per day per capita, as well as Kharas and Gertz's (2010) \$6 to \$10 per day per capita. Like many

others, the Statistics South Africa definition is far from objective. It does not consider that townships do have formal housing (even if as small as the Reconstruction and Development Programme Houses), they also have access to municipality subsidised water, and, some (if not majority of them), illegal access to electricity. The reasoning that access to running water, flush toilets and access to electricity constitutes a middle class household is misleading to say the least, especially if the above informal dynamics are accounted for.

It is reasonably safe to triangulate various metrics, to accommodate the various divergences and multiple disciplines which indulge on the middle class discourse and practice. In this paper, I define middle classes by triangulating four indicators<sup>5</sup>. First, the paper considers 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.

A higher threshold proposed by Visagie and Posel (2011), classifies as middle class households within R1,400 and R10, 000 range, per capita per month in 2008 prices. Visagie and Posel's proposal is based on the median income as a reference point, and the 50% to 150% spread from the median income.

The fourth indicator is locational. Middle classes are often identified through visible features such as living in suburbs, or owning large houses in townships and rural areas. The use of middle class in this paper, triangulates all the above indicators. For an individual or household to qualify into the middle class category, they need to fulfil at least one criteria.

### **3. POST-APARTHEID MIDDLE CLASS BASED GROWTH?**

The post-apartheid state has made significant economic gains since 1994, part of which has involved the formation of an ever emerging black middle classes. 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

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<sup>5</sup> I have used this triangulation elsewhere (See Musyoka, 2015) as an effective definition, especially for practical rather than theoretical reasons.

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) estimates that there are over 400,000 new salaried black middle class every year. Considering the large population of black African households in the country (about three quarters) the incidence of middle class is significantly high. Although poverty in South Africa might appear to have declined, the impact is not necessarily intergenerational. The new poverty mask is less elegant, but by many means intergenerational.

The foregoing figures result from commendable economic growth on the one hand, on the other, state re-distribution policies. The locus point of this growing middle class has been the Black Economic Empowerment (BEE) affirmative action policy (Ihenduru 2004; Southall, 2004a), although authors like Van Der Berg (2010) content that the dramatic rise of the country's middle class cannot be attributed only to affirmative action policies. But even if the rise of middle classes cannot be fully attributed to affirmative action, the majority of them are. This is perhaps one of the visible economic outcomes of the post 1994 era.

The apartheid state had repressed black middle classes in fear of the possibility that if a black middle class emerged, it would challenge white monopoly capital (Southall, 2004c). This scenario would of course disassemble the apartheid apparatus, effectively introducing political change –a risk the apartheid state was not prepared to settle for.

The rise of the black middle class in South Africa in part is a movement towards development and if Visagie and Posel (2013) argument is anything to go by, this middle class holds the promise for South Africa's development. Visagie and Posel (2013) further note that the middle class –development nexus is based on the tendencies of the middle class to generate demand, they represent the required human capital and they are critical in political stability. And it might be added, middle classes are connected to the poor, and therefore easily facilitate social mobility on the part of the lower class. I have argued elsewhere that the poor in South Africa, majority of whom are black, do not exist as lone individuals or lone households; they are entangled, sometimes in fundamental ways, with black middle classes (Musyoka, 2015). These entanglements manifest in ways such as wealth distribution by black middle classes, either as a supplement to state social grants, or in spaces where state grants do not exist or cover. It follows that, the expansion or shrinking of state grants inevitably influences wealth distribution patterns by black middle classes. This in turn might shape wealth accumulation or investments by black middle classes.

The black middle classes have developed mainly from within the state, primarily as civil servants and secondarily as citizens doing business with the state –colloquially referred to as ‘tenderpreneurs’. It is no coincidence that the state is the single largest employer (see Van der Walt, 2015). There are at least one hundred and twenty nine (129) state owned enterprises<sup>6</sup> all of which have played a major role in middle class formation. Of these, less than twenty are, in the main, industry based. The balance is mainly services based parastatals and a negligible number which focuses on finance. What this suggests is that majority of the labor in these parastatals are based in the services sector, and a handful in the manufacturing sector.

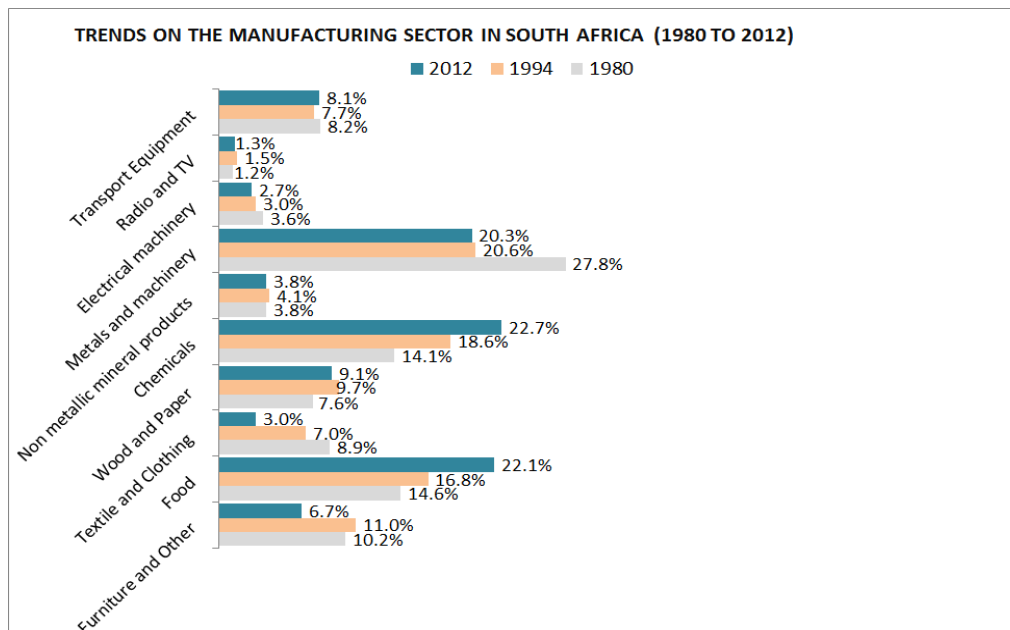
These trends might be seen as consistent with India, where the services sector is experiencing some sort of a revolution. Infact, Gordon and Gupta (2004) have termed the India case as a services revolution. Singh (2006) observes that from 1992, the Gross Domestic Product grew at 6% with 60% of this growth recorded from the services sector. The services sector expanded from contributing 37% towards GDP in 1980 to 49% in 2002; while the manufacturing sector stagnated at 16% during this same period (Ibid).

In South Africa, manufacturing has contracted from about 20.9% in 1994, declining almost by half, to 12.4% in 2012 (Industrial Development Corporation, 2013). This contraction is consistent with trends in the secondary sector (of which manufacturing is part of) which has shrunk from 27.7% in 1994 to roughly 19% in 2012 (Ibid). Metals and machinery has experienced the most remarkable contraction followed by Textile and clothing –both of which are labor intensive. The services sector on the other hand has expanded from 19.8% in 1994 to 22.8% in 2012 (Industrial Development Corporation, 2013). The trends of the manufacturing sub-sectors between 1980 and 2012 are illustrated below.

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<sup>6</sup> See <http://www.gcis.gov.za/content/resourcecentre/contactdirectory/government-structures-and-parastatals>

**Figure 1: Trends on the Manufacturing Sector in South Africa (1980-2012)**



Source: Conversions from the Industrial Development Corporation, (2013)

#### **4. SOUTH AFRICA'S INDUSTRIAL POLICY: MIDDLE CLASS FORMATION OR POVERTY ALLEVIATION?**

The paper now turns to examine South Africa's Industrial Policy, mainly the Industrial Policy Action Plan (IPAP), the objective being to understand what the focus of the policy has been, and whether there are areas that could be improved for middle class formation. Before this assessment is done, it is important to draw distinctions poverty alleviation and middle class formation. In the context of South Africa, I concur with several authors including Carter and May (2001); Bevan (2004) as well as du Toit (2005), who have rightly diagnosed South Africa's poverty as structural.

Structural poverty means that the poor are often at a tipping point, and vulnerability extends beyond poor individuals to the biological and socio-economic chains which the poor function within. It suggests that 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. There are some notable differences between poverty alleviation and middle class formation as illustrated below.

**Table 1: Distinctions between Middle Class Formation and Poverty Alleviation**

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

Source: Authors own

It follows that efforts to address poverty more permanently should adopt a middle class creation model, rather than poverty alleviation.

Reverting back to the analysis of the manufacturing sector in the previous section, are the current de-industrialization trends traces of a post- industrial society, or are there internal predispositions of South Africa’s post 1994 manufacturing sector, which undermine middle class formation? Altman and Meyer (2003) suggest that industrial policy after 1994 heavily leans towards supply side interventions, contrary to the pre-1994 demand based interventions. These authors go on to identify supply side interventions as the following:

- (a) The Motor Industry Development programme (MIDP) and its successor, the Automotive Production and Development Programme (APDP)
- (b) The Duty credit certificate Scheme for the clothing and textile sector
- (c) Export promotion measures such as duty drawbacks for inputs used in the manufacturing sector, establishment of export councils, setting up of schemes to promote technological advancements.
- (d) Investment promotion
- (e) Black Economic Empowerment
- (f) SMME development
- (g) Restructuring of parastatals, mainly in the transport, energy and telecommunications sectors.
- (h) Spatial Development Policies, including Industrial Development Zones

The focus on supply side relates to the need for job creation. What is important to note is that, the supply side interventions seem to target downstream rather than upstream beneficiation. 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. These policies are examined below.

The New growth Path Framework (Republic of South Africa, 2010), as does 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 posits that the cost structure of the manufacturing sector is too high, rendering it non-competitive in low skills manufacturing (Republic of South Africa, 2011). 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 (Republic of South Africa, 2011). The New Growth Path (NGP) 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 the sector. How this would be achieved, according to the NGP, is through provision of support to labor intensive activities in light manufacturing industries. Downstream beneficiation is especially critical as far as the NGP is concerned. The NGP further expects parastatals to achieve specific targets such as, 50,000 artisans by 2015. All in all, the New Growth Path underscores the job creation objective. The policy does not mention the quality of these jobs, except implicitly. This it does through focusing on “sectors that can generate employment on a large scale and meet basic needs at lower cost in short to medium term” (2010:34). The underlying reasoning seems to point to *number of jobs*, and thus poverty alleviation rather than middle class formation. There is an indication that when full employment is reached, the state will then turn to capital intensive investments in the economic sectors. This would include upstream support for the manufacturing sector.

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.



Understandably so, the Industrial Policy Action Plan (IPAP) provides a more detailed diagnosis of the manufacturing sector. The IPAP suggests that 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.

The latest IPAP 2015/16 - 2017/18 considers several priorities, all of which seem focused on state driven manufacturing. It goes on to mention only once, and in passing, that private sector will be crowded in, but then leaves out the details for the readers guess work. 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).

The first three objectives are focused on poverty alleviation, the fourth responds to geo-politics while the fifth relates to national goals. None of these objectives are focused on addressing social mobility in any meaningful way. The current IPAP is also inundated with some sort of input-output matchmaking, mainly monetary investments versus jobs created, or factories established, etc. This is of course understandable given the need to account for funds employed in the efforts to re-industrialise. This input-output approach however casts long shadows on social mobility, and by so doing undermines the attempts to terminate poverty traps in a more sustainable way.

The IPAP highlights three key areas of focus, namely; public and private procurement, leveraging the country's resource endowment, especially mining and provision of support on manufactured exports. The third focus area involves among other strategies, the support for black industrialists through facilitating access to markets, access to finance and skills development. The support of

export based Original Equipment Manufacturers (OEM) is a strategic intervention, which would rightly support black middle class formation. The emphasis on creation of black industrialists is a noble one, and, the IPAP points to success stories such as the South African Fruit and Vegetable Canning Association, where 70% of the Robertson based orchard is owned by black women. The IPAP also draws attention to Black-owned and-controlled Ansys which have been awarded R 188 million contract by Transnet to supply integrated dash-board display systems for the freight rail utility's locomotives. Large foreign conglomerates are also obligated to meet local recruitment targets, although there are no indications on the outcomes of these global and local intersections.

It is also refreshing to note the ambition to create black industrialists through access to finance, access to markets, skills development, and enabling black manufacturing industries to meet standards, quality and productivity improvements.

On industrial financing, the 2015/16 -17/18 IPAP identifies at least twelve funding sources as noted below (DTI, 2016).

(i) Industrial Development Corporation which disbursed R6 billion in the 2015/16 financial year, supporting 4753 jobs and creating 4126

(ii) Development Bank of Southern Africa which spent more than R21 billion towards infrastructure and municipal support issuing loans of up to 56.7 billion in the 2015/16 financial year.

(iii) The National Empowerment Fund (NEF) which during the same financial year approved 700 transactions totalling more than R6.9 Billion for black –empowered businesses and supporting 84,000 jobs.

(iv) Manufacturing Competitiveness Enhancement Programme (MCEP) which approved funding for up to 232 organizations between April and December 2015, and spent approximately R8.8 billion sustaining 52,446 jobs.

(v) The Automotive Investment Scheme (AIS) which approved 39 projects with incentives totalling R978 million and total investments of R3.7 billion, between April and December 2015.

(vi) Enterprise Development Programme-between 2015 and 2016, DTI plans to spent R44 million in to revamp two industrial parks located in Eastern Cape -the Vulindlela Heights Industrial Park (based in Mthatha) and Queenindustria Industrial Park (Queenstown).

(vii) 12i Tax Allowance Incentive Scheme which approved projects of estimated value of R9.5 billion during the 2015/16 financial year

(viii). Aquaculture Development and Enhancement Programme (ADEP) which supported 11 projects with an incentive value of R49 million, during the 2015/16 financial year. This, DTI (2016) argues, leveraged investment worth R206 million, with expectations that this would create 291 jobs.

On the whole, there are indications that the DTI is making efforts to create black middle classes in the manufacturing sector. The methodology proposed in the IPAP, however, might yield piecemeal growth of the black middle class.

From the foregoing, I make the following propositions.

First, the dominant use of the term 'job creation' and the alternate use of 'job support' masks several assumptions. It is unclear what the DTI means by 'job support' as opposed to job creation. But even so, there are no indications where the jobs to be created or supported are located -in low level skill categories, mid, or high. There is also no mention of whether these jobs are temporal or permanent, or whether there are any social security measures accompanying these jobs. Not to mention which jobs are located in the private sector, and which ones are in the public sector. Deconstructing the otherwise politically loaded 'job creation' rubric would go a long way in identifying the real gaps and omissions which could be translated to social mobility opportunities rather than 'survival' incubators.

The second observation, if general, is the notion that black middle classes are conspicuous consumers, and therefore they reflect the rough side of capitalism. This narrative as Musyoka and Kroeker (forthcoming) have argued, is only one side of the coin, and perhaps the less dominant side. Black middle classes in South Africa are more distributors than consumers, given the deep entanglement with the poor. Promoting middle class formation is likely to re-locate, or in the least disperse the redistribution burden of the state to households.

The third proposition which relates to the above, is that either 'social mobility' and 'middle classes' do not feature in the IPAP and the New Growth Path. And, contrary to the proposals of this paper, the National Development Plan aims to 'moderate' the wages of the middle income group (Republic of South Africa, 2011:39) rather than facilitate their upward mobility. In what seems to be a contradiction, however, the NDP alludes to social mobility as critical in achieving vision 2030. For the NDP, much of the social mobility facilitation is left for employers to determine their pace and methods. The challenge with poverty alleviation obsession is that, it scratches on the surface. On the whole, South Africa's poverty is structural, and, middle class formation seems a more effective methodology to terminate poverty traps. That is to say, interventions need to go beyond 'pulling people from the cliff' to providing them with slightly more than basic livelihoods.

Fourth, although South Africa's industrial policy is laudable, the attempts to straddle between capital investments and downstream beneficiation might be a tall order, both in terms of expenditure as well as in what is, actually achievable. Focusing on sustainable jobs rather than 'any job', and bundling these jobs with promoting social security measures. On labor rigidity, Von Fintel (2015:1) has shown that "In the long run, wages are much more flexible and structural factors explain more of the unemployment puzzle" than labor rigidity does, and, only in specific contexts such as unionised workers does labor rigidity suppress job creation. 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.

Fifth the state needs to enhance mid-level manufacturing opportunities within parastatals, but also provide incentives for state employees to exit into the private sector. Currently, there are almost no incentives to leave the state. Wages are generally high within the state sector, and secondly, state employees are guaranteed of job security as well as social security benefits. This 'coupling' potentially minimises competition, and in extreme cases leads to wastage of expenditure given that production is not matched with compensation. It is no surprise that a large number of middle classes remain within the state.

Lastly, the creation of black industrialists through access to markets, access to finance and skills development is likely to achieve more political than economic goals. Access to market and access to finance has tended to benefit those closely connected to the political machine. Also, the IPAP does not specify how doing business with the state could be modelled to facilitate private sector based expansion of middle classes. The most likely scenario is a further extension of state dependant (specifically procurement dependant) middle class. The IPAP could have included an incubation programme aimed at facilitating exit from primary dependence on the state. The identification of career industrialists is also conveniently missing. IPAP would do well to draw some lessons from the land reform programme, that funding and access to markets does not produce a career aspiration.

## **5. CONCLUSION.**

This paper examined how South Africa's post-apartheid industrial space is intersecting with the formation of middle classes. Efforts were made to trace historical trajectory of how in the past, the South African state was successful in addressing poverty through industrializing. The argument made is that the sorts of interventions implemented by the state in the 1920s onwards were in essence middle class creation rather than poverty alleviation. The bundling of initiatives such as labor

protection, high wages, and housing had effective and lasting impact on white poverty at the time. It also set into motion intergenerational social mobility among previously poor whites. The paper also dealt with middle classes, scanning, if briefly, the competing definitions of middle classes. In addition, the study examined South Africa's industrial policy with middle class formation lenses in perspective. The analysis concluded that the country's industrial policy has been largely silent on middle class formation. Several propositions on how the middle classes could be created in the manufacturing sector were presented.

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