AIDC

Alternative Information & Development Centre

ERASE Building, 4 Shannon Street, Salt River 7924
P.O.Box 1139, Woodstock 7925
Phone (021) 448-5197
Fax (021) 47-8583
E-mail: aidc@iafrica.com

APARTHEID DEBT - THE PENSION COMPONENT

The Alternative Information and Development Centre (AIDC) and the NGO Coalition have called upon the new democratic government of South Africa not to pay the apartheid debt, incurred by the previous regime. The Reconstruction and Development Programme is suffering under the weight of interest payments on the debts made by the apartheid regime. Our organisations have argued that this debt is an odious debt incurred in the process of maintaining the system of apartheid. While major organisations of civil society have shown great interest in this issue, business and government circles have been sceptical. A consistent concern has been raised in relation to the impact of debt cancellation for state pension holders.

To address these concerns the AIDC and the NGO Coalition commissioned research into the dynamics of the public debt in relation to state pension funds. The research was conducted by the development and economics consultancy, Glassbox. The astonishing findings are summarised below.

1. The current government debt is R310 billion. 20% of Government's budget for this year is spent on paying interest on this debt. The government regularly says that this interest payment -- which is the second largest item in the national budget -- is seriously obstructing its growth and development programmes. Apartheid, in one or other form, is responsible for most of this debt.

2. The largest single block of the debt -- 40% -- is owed to the Public Service Pension Fund.

3. In 1989, the government debt was only R80 billion. This is to say, between the birth of South Africa, in1910, and 1989, the accumulated debt -- the cost of all the infrastructure - the roads, railways, power stations, dams and water supply, etc. - and the massive militarisation of the apartheid state -- was a relatively modest R80 billion. Six years later, the debt had jumped almost fourfold, to R304 billion. What lies behind this mammoth and rapid growth?

4. The largest single part of the answer lies in the pension fund for state employees. The valus of public pension fund assets increased by R100 Billion (from R31bn in March 1989 to R136bn in September 1996). In 1989, the apartheid government changed the way in which the pension was to be funded. The government decided to move from a 'pay-as-you-go' system to a 'fully funded' system. A 'pay-as-you-go' system means that today's workers pay for the pension of workers who have now retired. It is a well-established system and is to be found in countries such as Britain

and Australia. A 'fully funded' system is one that has the actual reserves to meet the full pension requirements of all its beneficiaries.

5. In order to finance the 'fully-funded' scheme, the government has had to pump huge amounts of money into the Pension Fund each year since 1989. The table below details the dramatic surge in government contributions to the pension fund (in billions of rands).

1988	1989	1990	1991	1992	1993	1994	1995	1996
3,055	3,669	4,152	11,578	11,844	9,855	11,305	10,444	7,181

(Source: Reserve Bank Quarterly Bulletin)

6. The government has not had the money required, so it has had to borrow it. It did so by selling 'bonds'. Who bought these bonds? Believe it or not, the government itself! Specifically, a shadowy office within government called the PIC (the Public Investment Commissioners) purchased the bonds that the government was selling in order to raise the money it needed "to pump up" the pension fund. Where does the PIC get its funds to buy? From investments by the public service pension funds. Government then pays interest to the PIC. The PIC channels the funds directly back to the pension funds.

7. Naturally the PIC expects and gets interest on its loans to government - very high interest to be sure. This means that the government (through the PIC) is not only lending itself (Department of Finance) its own (taxpayers') money but is using its (taxpayers') money to pay itself (the PIC) enormous interest on the money lent. The result of all this insanity is that the PIC is sitting on a fast growing pile of money that last year was worth around R130 billion - a single pool of money exceeded in size only by the Johannesburg Stock Exchange. Last year the PIC received R14.5 billion in interest alone. And R10 billion of this interest came from the government. By comparison, the actual cost of the state pensions paid out last year was R9.2 billion. In other words the state pension funds were able to meet all their obligations simply out of the interest on the PIC's loans to government.

8. The tables below detail the sources of Official Pension Fund income and the growth in surplus of the fund (in billions of rands):

	interest + dividends (via the PIC)	Members contrib	employer's contrib (from tax revenues)	Other income	total income *
1988	2,782	1,002	3,055	108	6,947
1989	3,592	1,180	3,669	11	8,452
1990	4,645	1,393	4,153	-554	9,637
1991	5,686	1,609	11,578	-110	18,763
1992	7,565	1,962	11,844	1,033	22,404
1993	9,562	2,204	9,855	1,438	23,059
1994	10,903	2,496	11,305	1,715	26,419
1995	12,715	2,640	10,444	214	26,013
1996	14,036	2,608	7,181	2,141	25,966

	Total Income *	Annuities	Lump sum on retirement	Other lump sums	Admin	Total Payment	Income Surplus
1988	6,947	1,266	1,314	152	1	2,733	4,214
1989	8,452	2,156	620	289	1	3,066	5,386
1990	9,637	2,059	736	340	7	3,142	6,495
1991	18,763	2,838	1,164	355	25	4,382	14,381
1992	22,404	3,512	1,586	301	49	5,448	16,956
1993	23,059	4,262	3,588	383	81	8,314	14,745
1994	26,419	5,274	3,305	333	91	9,003	17,416
1995	26,013	5,891	1,879	439	96	8,305	17,708
1996	25,966	6,729	1,991	551	120	9,391	16,575

(Source: Reserve Bank Quarterly Bulletin)

9. Expenditures from the Government's current Budget give some perspective to the PIC's surplus of R130 billion or the R10 billion the PIC received in interest payment from the government.

1997/98 Budget

Education – R40,2 bn	Health – R20,2 bn	Housing – R4,1 bn
Water – R1,8 bn	Welfare – R18,4 bn	Interest – R38,5 bn

(Source: SA Department of Finance, Budget Review 1997)

10. Why did De Klerk's apartheid government create such a monster? We don't know, but it would appear that they feared the in-coming ANC government might not maintain pensions to the employees of the apartheid state. It seems that the apartheid government saw the fully funded system as a secure way of both meeting gravy-train pensions for apartheid bureaucrats and allowing for substantial golden handshakes and early retirement packages.

11. It would also seem that the apartheid government implemented a deliberate strategy of imposing a great debt burden on the incoming democratic government. Thabo Mbeki in a recent document offers an insightful explanation.

"The Apartheid ruling group imposed on the country an unprecedented debt burden whose acquisition had to do exclusively with shifting the balance of force during the period of transition from Apartheid to democracy, so that this anti-democratic group would not be as weakened, politically, as it would otherwise be, in contradistinction to the democratic movement."

(Source: The State and Social Transformation)

12. Whatever the reasons might have been, the consequence is that our country's first democratic government is crippled by a scheme that requires the victims of apartheid to continue to live in poverty so that those privileged by apartheid can continue to enjoy their privileges.

13. Yet, as our research findings show, government does not face a *real* resource constraint but a *financial* constraint left over from the period of transition. South Africa's democratic government has enormous room for manoeuvre in terms of cancelling the debt and what is more this can be done without harming any pensioner. Instead of implementing severe austerity programmes that lead to cuts in social spending and once again penalise the victims of apartheid, cancelling the apartheid debt and channelling the resources into eliminating poverty would bring the principles of the RDP back to centre stage.