

# The Politics of Distribution in South Africa

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## **I. Introduction**

The distributive decisions governments make have important welfare implications for their citizens. These effects are particularly pronounced in African countries where small changes in resource allocation can lead to large changes in a local government's ability to provide public services, which in turn can positively or negatively affect the future welfare of citizens (Miguel and Zaidi 2003). Local governments in Africa depend mainly on the central government to provide the necessary funds in order to provide services such as healthcare, education, and water and electricity to their constituents. If the central government diverts funds disproportionately to its supporters, other citizens have to forgo these necessities. This, in turn harms economic development and growth. The same is true, albeit on a smaller scale, at the level of local government. If one area within a district continually receives fewer public services, the residents of that area will face higher costs in acquiring goods such as water, health, and education, leaving less time and resources to pursue economically productive endeavors. It is thus critical to understand how governments choose to distribute resources, in order to identify potential issues that could hamper the growth potential in Africa.

When the African National Congress (ANC) won South Africa's first democratic elections in 1994, South Africa was one of the most unequal countries (societies) in the world. Its economy was in a dismal state, and per capita state social spending on white South Africans was three times more than on black South Africans, despite attempts to equalize spending in the 1980s.<sup>1</sup> The ANC faced the momentous task of addressing these inequalities, and did so by reallocating government resources while keeping tax levels at approximately the same levels.

Given South Africa's history of white authoritarian rule and its subsequent democratization, redistribution and reallocation of government resources is (was to be) expected. Additionally (furthermore), in a newly democratized state, this redistribution should overwhelmingly favor the poor. However, this expectation does not appear to always be realized; for example, Great Kei municipality in the Eastern Cape Province received substantially more financial support from the central government than nearby Engcobo municipality between 2003 and 2006 despite the fact that Great Kei municipality has an average annual household income of R23,800 compared to

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<sup>1</sup> van der Berg (1998)

Engcobo's R13,700<sup>2</sup>. This outcome is puzzling, given the ANC's stated objectives of poverty reduction. Moreover, this outcome cannot be explained by traditional theories of ethnic politics nor by the theory that race drives all politics in South Africa, as more than 90% of the residents in both of these municipalities are black Africans. Since these government grants (financial allocations) are crucial for the welfare of citizens, and the development of these areas, how can we account for this variation? I argue that electoral support for the ANC in the 2000 elections helps explain this variation. Approximately 90% of Great Kei residents supported the ANC, while only 65% of the residents of Engcobo did. Resources are therefore not going to the deserving, or to co-racials: they are going to political supporters. Such discrepancies in central government allocations to local governments are found throughout the country.

South Africa is often seen as a 'special case' and many studies of Sub-Saharan Africa exclude it from their analysis. Race, rather than ethnicity, is strongly correlated with vote choice, which makes it unclear how applicable theories of ethnicity are to understanding the distributive decisions the ANC makes. I propose that existing theories of authoritarian regimes, combined with our understanding of the role of race and ethnicity in African politics, can help to explain the distributive decisions of the ANC in South Africa. In this research project I will test whether the ANC has created a punishment regime as the PRI did in Mexico (Diaz-Cayeros et al. 2003; Magaloni 2006), where those districts who fail to support the ruling party receive less funding and support from the central government, as Engcobo did in the example above. I also take advantage of the so-called service delivery protests, which have been numerous in South Africa since 2004, to test if the ANC in fact more closely resembles contemporary China as described by Lorentzen (2005). In this model, the central government allows protests in order to identify where local government agents are not performing as they should and where citizens are truly dissatisfied with the government.

I plan to test my argument by analyzing distributive decisions at two distinct levels of government. I will analyze the decisions the central government makes when deciding how to allocate government grants to municipalities. I will also analyze the decisions municipalities

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<sup>2</sup> Using a purchasing power parity of R5.50 to the dollar, this means that the average household in Engcobo has to survive on less than \$2,500 dollars per year, while the average household in Great Kei makes about \$4,300.

make in allocating the proportion of their revenue spent on public services such as water and electricity.

## **II. Literature**

### **Theories of Distribution**

There are a number of theories to explain how politicians distribute resources. The question of whom parties choose to allocate distributive resources to was first raised in the analysis of New Deal spending during the depression era in the United States. States in the West, especially the mountain states, received far greater per capita transfers than the relatively poorer states in the South. Scholars found that political variables explained the distributive decisions better than economic variables, which should have determined the allocation of spending (Arrington 1969, Reading 1973). Despite the fact that Wallis (1998) has shown these results to be very sensitive to measurement choices, we can still view the analysis of New Deal spending as the foundation for the literature on political distribution. In analyzing the distribution of resources Holden (1973) finds that resources are distributed conservatively, based on two key rules: “Hold what you’ve got” and “Take care of your own”.

### ***Core and Swing***

There are two major models which attempt to explain the distributive decisions politicians make. The first argues that politicians will invest more resources in core groups than in swing and opposition groups (Cox and McCubbins, 1986). The second argues that politicians will invest more in swing voters (Lindbeck and Weibull, 1987). The basic underlying assumption in both the Cox-McCubbins and Lindbeck-Weibull models is that swing voters are more responsive than either core or opposition voters. In other words, a small amount of redistributive benefits can convince swing voters to vote for a given party, whereas both core and opposition voters are assumed to have strong party attachments that go beyond any promise of distributive benefits.

Cox and McCubbins (1986) argue that uncertainty plays an important role in the decision making process, and that this uncertainty leads to politicians favoring core voters over swing voters in their redistributive choices. They assume that political parties are risk averse. Parties are also

uncertain about how swing groups will respond to transfer of benefits. Parties thus choose to favor their core, as they are the less risky investment.

Lindbeck and Weibull (1987) argue that some voters genuinely care about ideology and that political parties can only alter their positions on some issues, such as the budget. Lindbeck and Weibull find that redistributive politics will tend to favor swing voters, assuming no voter apathy. The underlying assumption here is that the marginal utility of consumption is lower for voters with a strong preference for a specific party, than for voters with weak preferences. It thus follows that parties will target voters with weak preferences – the swing voters – to maximize the return on their spending.

Dixit and Londregan (1995, 1996) build a general model, in which both the Cox and McCubbins (1986) and Lindbeck and Weibull (1987) models are special cases, to explain how political parties target transfers. Dixit and Londregan argue that if parties are equal in their abilities to target benefits to all groups, then parties will target swing voters. For Dixit and Londregan, core voters are not necessarily those who have a strong affinity for the party based on issues or other factors. In fact, they view the core as those groups to whom a party can easily distribute benefits and whom the party knows well. Thus, if a party has a clear core group it will distribute benefits to that group as in the Cox and McCubbins model, but if there is no clear core group the party will choose to distribute to those voters whose votes it can easily (and cheaply) buy, as in the Lindbeck and Weibull model.

In applying these theories, an important measurement question comes to the forefront.

According to Cox (2007), there is an important distinction between the theories of which *groups* are rewarded as opposed to which *districts* receive rewards. The Cox-McCubbins, Lindbeck-Weibull, and Dixit-Londregan models all analyze distribution within a single district. Most empirical studies however, focus on distribution across districts. It is important to note that even when a party focuses on a swing district, they may still be targeting core voters within that district, as the Republicans did in Ohio during the 2004 presidential election (Cox, 2007).

Identifying potential swing *voters* in a dominant party system is difficult, as support for the ruling party remains fairly constant. In South Africa, this is particularly challenging, as voters, even when openly dissatisfied with the ANC, continue to support the ANC in both the national

and local elections. Identifying potential swing *districts* is impossible, as South Africa uses national list proportional representation (PR) for national elections. In a country in which officials are elected using single member plurality (SMP) the swing districts are normally defined as those where the party or candidate receives between 45% and 55% of the vote. Under PR, there is no clear cut-off and thus it is difficult for a party to determine which districts it should focus on to increase its representation in the legislature.

Additionally, using these models to explain the distributive decisions the ANC makes, is not ideal. The models mentioned above all assume that the political party in question is attempting to maximize votes. Given the ANC's large mandate, this may not be accurate. I turn instead to two other models to inform my understanding of distribution in South Africa.

### ***Punishment Regime***

Diaz-Cayeros et al. (2003) argue that the Partido Revolucionario Institucional (PRI) in Mexico did not have to make the normal choice – which we expect based on the American politics literature – between core and swing voters. Instead, they had to pacify the districts most likely to defect, in order to *maintain* their support. In 1988, 1991, 1994, and 1997 Mexicans strongly supported the PRI despite having negative evaluations of the economic performance of the country (Dominguez and McCann 1996, Magaloni 1999). This was also the case in Taiwan in 1996 (Niou and Ordeshook, 1996), Japan (Scheiner, 2006) and a number of other single party dominant states.

Despite low approval ratings, the PRI in Mexico survived for many years. Diaz-Cayeros et al. (2003) argue that there are three reasons that citizens keep regimes such as the PRI in Mexico; 1. regimes rely on coercion, 2. regimes gain legitimacy through a strong economy, or finally 3. the regime creates incentives for citizens to support them. Based on Magaloni (2006) I would add a fourth reason to this list: electoral fraud. While coercion, a strong economy, and electoral fraud can all contribute to the survival of an authoritarian regime, they cannot explain all cases of survival. The final reason to explain why voters continue to support dominant party regimes is the incentive structure that Diaz-Cayeros et al. call “tragic brilliance” – tragic since the regime convinces voters to accept poor government service, brilliant since the regime manages to get

voters to vote for it willingly. This tragic brilliance refers to the basic principle of a punishment regime. In a punishment regime, the dominant party creates incentives for citizens such that citizens feel that they will be better off supporting the ruling party even if they are dissatisfied with the current ruling party and/or prefer a different party.

It is important to note that Diaz-Cayeros et al. (2003) find that a vote for the PRI does not imply that voters were not acting strategically. In fact, they show that the PRI created incentives such (as) that the dominant strategy was to vote for the PRI even if the voter strictly preferred a different political party. Since the PRI controls the government and allocates funds to local governments, they can credibly threaten to withdraw funds from any locality that defects. Scheiner (2006) makes a similar argument. In Japan, the local governments are dependent on the central government to allocate funds, and because it is a clientelistic system, only local governments affiliated with the national party will receive adequate funding. This reduces the incentive for local opposition parties to form, since they can only be effective if they enjoy support at the national level as well.

Diaz-Cayeros et al. (2003) argue that in Mexico, voters viewed opposition parties' promises as incredible because they lacked political experience. Even when voters prefer the opposition party, they may continue to vote for the ruling party if they believe that the opposition does not have the funds available to meet the basic needs of the population. This is especially pronounced in a punishment regime, where districts controlled by the opposition will receive less funding from the central government. This means that the poorer voters are, the more risk-averse they are, and the easier it is for the dominant party to keep them from defecting.

Green (2006) argues that the dominant party maintains power because of the overwhelming advantage it has due to the resources it has access to. This resource imbalance discourages opposition parties from forming. Scheiner (2006) finds a similar situation in Japan. He argues that when local opposition parties form, despite the disincentives to do so, voters have little incentive to support them, as voters know they will receive less funding, and thus less public services, as a result. This is because local opposition parties cannot credibly claim that they will change the system at the national level. Local opposition parties also do not have enough money to make up for the difference in funding between what the locality would have received if they

continued to support the Liberal Democratic Party (LDP) and what they will receive from the national government when they defect.

### ***Protests as an Informational Mechanism***

In democracies, elections serve to provide information about citizens' preferences. If voters are dissatisfied with the performance of the incumbent, they can vote for a different candidate or party. If voters are satisfied, they continue to vote for the same party.

In South Africa, elections do not generate as much information as would normally be expected. This is due to the fact that South Africa has a dominant party regime with a strong mandate. Additionally, South Africans continue to support the ANC despite having negative retrospective evaluations of the party's performance. In this respect, South Africa begins to resemble a more authoritarian regime. Combined with the recent uptick in protests in South Africa, the country starts to resemble China, as modeled by Lorentzen (2005).

Lorentzen (2005) argues that "a large number of protests may result from strategic choice by the central government" (Lorentzen, 2005, p1). He argues that in China, the central government chooses to rely on "fire alarms" rather than "police patrols" to determine which local governments are not performing as well as they should be (McCubbins and Schwartz, 1984). Police patrol oversight in this context refers to audits, which take a significant amount of manpower, and are costly for the central government. Fire alarms, in this context, refer to the protests. It is a way for citizens to give a clear, loud signal that something is wrong. The government can thus conserve resources by only responding to fire alarms, rather than driving around looking for "fires". Contrary to what we might expect from the Chinese government, Lorentzen finds that the central government rewards the protestors (rather than punish them) and punishes the local government officials. The key to his model is that protest is a costly signal for the citizens. This means that the central government can rely on protests to indicate districts where there are true problems, as protestors have to invest time and energy into planning and holding protests, and face possible punishment from both the local government and the central government. Based on Lorentzen's analysis we can conclude that the Chinese government actually welcomes a certain level of protest and that citizens use it as a forum to air their grievances given that they do not have the ability to do so in regularized national elections.

## **Ethnicity**

In Africa, ethnicity is an important connection between political parties and voters. In South Africa specifically, race is often cited as the key connection between parties and voters. Some scholars argue that the party system is a reflection of the social cleavages that exist in a country at the advent of party politics (Lipset and Rokkan, 1967). These cleavages then become frozen and shape politics in the future. This point of view argues that ethnic competition in Africa is a reflection of the cleavages that existed in those countries at the time the party system formed. A second point of view argues that cleavages are not frozen and that *politicians* will shift political competition to reflect the dimension on which they enjoy the greatest advantage (Riker, 1986). In a similar vein, Zielinski (2002) argues that the parties that survive the first few rounds of democratic competition will determine which social cleavages become politicized. Institutions can also play an important role in determining which cleavage becomes salient, as institutions affect the usefulness of coalitions and even how those coalitions are formed (Posner 2005, Iverson and Soskice 2006, Bardhan 2008). Posner (2005) also argues that when institutions change, the salient cleavage can change as well.

Ottoway (1999) argues that the absence of ideological or programmatic differences between parties in Africa meant that ethnicity became the dominant cleavage in African politics. Politicians in Africa have an incentive to mobilize voters on ethnicity, as the politicians are only valuable to their party when they are able to deliver voters (Van de Walle, 2007). Ethnicity serves as an easy criterion for choosing voters with whom to build a winning coalition (Brinkerhoff and Goldsmith, 2002).

Chandra (2004, 2007), although analyzing politics in India, tells an information-based story. She argues that when voters are deciding whom to vote for they have very little information on politicians' past party performance. Since ethnicity is a readily available cue, voters use it to determine their vote choice. Politicians then respond to this ethnicity-based decision-making process by focusing distributive goods toward specific ethnic groups. Ethnic politics thus becomes a self-enforcing equilibrium.

Horowitz (1985) argues that engaging in ethnic politics gives political leaders the promise of a secure support group. As Posner (2005) explains in his analysis of Zambia, there is an expectation among voters that people in power will favor co-ethnics. This belief makes voters

more likely to support co-ethnic politicians, which in turn makes politicians more likely to make ethnic appeals, again resulting in a self-enforcing equilibrium.

Regardless of the explanation for why ethnicity becomes politicized, it is important to realize that ethnicity can change the logic of how politicians distribute resources. Political science normally assumes that the link between politicians and voters is political parties. In Africa, ethnicity is the bonding agent, which changes the incentives for both politicians and voters.

Ethnicity allows politicians to more easily identify, monitor, and reward their supporters and conversely, to punish those who fail to support them. In turn, voters choose to support their co-ethnic party, not simply because it is the party of their co-ethnics, but because they know that they will be punished for not doing so. Cowen and Kanyinga (2002) argues that in Africa “the fear of exclusion” from access to state resources draws voters to the ruling party and away from opposition parties.

### **III. Case Selection**

I build on the models discussed above to examine the distributive decisions the South African government makes. South Africa is a particularly interesting case in which to analyze these allocation decisions as our existing theories of distribution in Africa do not explain the variation we observe.

In 1994, the African National Congress (ANC) won South Africa’s first democratic elections with a landslide 62.6% of the votes. The ANC increased its mandate in both the 1999 and 2004 elections, receiving 66.4% and 69.7% of the votes respectively. In 2008, Thabo Mbeki was forced to resign from his post as President of South Africa. Subsequently, a number of ANC stalwarts, notably Mosiuoa Lekota and Mbhazima Shilowa, broke away from the party and formed a new political party, eventually named Congress of the People (COPE). Despite fears that COPE would draw a large portion of the votes away from the ANC in the 2009 national election, the ANC still received 65.9% of the national vote, with COPE in a distant third place with 7.4% of the vote.

The ANC dominates all aspects of South African politics, and the prospect for alternation in power is all but nonexistent. Despite the ANC’s strength, democracy is also thriving in South Africa. There are a large number of political parties that compete in elections, and a few that

make fairly strong showings in their respective parts of the country. South Africa fits well into Sartori's (1976) description of a "predominant party system" where although there is no alternation in power, such an alternation is not ruled out.<sup>3</sup> In a dominant party regime, a single party dominates all aspects of political life for an extended period of time. While party competition is legal – unlike in a single party regime – the other political parties play a very small role. Mexico under the PRI and Japan under the LDP are classical examples of single party dominance.

South Africa also resembles the Mexican case, with respect to the negative evaluations citizens have of the ruling party. In both countries, citizens claim that they are dissatisfied with the performance of the central government, yet they continue to support the ruling party at election time. Since the ANC continues to receive support from a large proportion of the population regardless, it means that elections do not convey as much information as they ideally would in a democratic regime.

South Africa is a decentralized state, which allows me to study multiple levels of government. Since different levels of government are responsible for the provision of different types of goods, it also allows me to test if there is variation in how the government distributes different types of goods. The first distributive decision I will review is central government transfers. These transfers flow from the national government to the municipal governments. The municipalities are responsible for providing public services, such as water and electricity, to their residents. Municipal governments make their own distributive decisions when deciding how much of the budget to allocate to the provision of these public services.

South Africa is divided into nine provincial governments. Each province is again divided into a number of municipalities, which are divided into a number of wards. There are a total of 284 municipalities and 3774 wards. The national government raises most of the national revenue through company taxes, personal income taxes, and value added taxes. Based on the figures released by the Department of Treasury, the average municipality depended on government grants for 30% of its revenue between 2003 and 2006. While this means that the average municipality is far from completely dependent on the central government for funding, it is a

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<sup>3</sup> Sartori, 1976

significant portion of a municipality's budget, which means that municipal governments and their citizens would have to do a fair amount of revenue raising, or go without, if the central government were to withdraw these funds. Additionally, 25% of municipalities depend on these government grants for about 60% of their revenue.

#### **IV. Theory and Hypotheses**

There are a number of theories to explain how the ANC will choose to distribute political resources. The first is basic economic redistribution. This theory proposes that the ANC will distribute government resources based on need rather than political considerations. This is in line with the stated goals of the ANC and leads to my first general hypothesis.

Hypothesis 1: Municipalities with the most need receives the most support.

As a dominant party regime, the ANC may rely on a punishment regime to ensure continued support from the voters. One of the key factors of punishment regimes, in Mexico and elsewhere, are that the ruling party manages to maintain a large support base despite negative evaluations from much of the citizenry. A preliminary analysis of public opinion point to a similar pattern in South Africa – despite widespread criticism of the ANC and complaints about the under-provision of services, the ANC enjoys continued, high levels of support.

Diaz-Cayeros et al. (2003) and Magaloni (2006) discuss four reasons why citizens would keep a dominant party in power. Regimes may rely on coercion, electoral fraud, legitimacy through economic growth, and punishment regimes. The ANC does not seem to be particularly guilty of either coercion or electoral fraud. While South Africa has experienced continued economic growth in the post-1994 period, it is still a relatively poor, highly unequal country, with massive rates of unemployment. This limits the government's ability to gain legitimacy through economic growth from those who have not experienced any direct benefit from the economic growth.

The last method proposed is that the government creates a punishment regime. In a punishment regime, those areas that fail to support the ruling party are punished by a reduction in the amount of central government transfers. This system creates incentives for voters to continue to support

the ruling party even if they are dissatisfied with the performance or if they prefer an opposition party. Given that half of the 284 municipalities in South Africa depend on central government transfers for at least 30% of their revenue, the ANC has enough leverage over the municipalities to create a punishment regime. This leads to my second hypothesis.

Hypothesis 2: Municipalities that fail to support the ANC will receive less support than other municipalities, all else equal.

A distinctly different explanation for the ANC's continued support may rely on their credentials as the party of liberation. Booysen (2007) argues that "voters have a deep sense of the legitimacy of the ANC for their leading role in winning majority rule" (Booyesen, 2007, p29).

However, South Africans do not simply continue to vote for the ANC without voicing any of their dissatisfaction with the party. In 2004/05 South Africa experienced 5,800 protests and this number grew to more than 10,000 in 2005/06.<sup>4</sup> Booysen (2007) argues that these protests are not signs of a grassroots revolt against the ANC. Instead, she argues with support from survey research, that voters see protest as almost equally efficient mechanism, as compared with voting, to ensure increased service delivery.

As in the Chinese example, the central government rarely punishes the protestors. In fact, Booysen (2007) shows some evidence that municipalities benefit and local councilors are punished - as expected based on the Lorentzen model. In the run-up to the 2006 local elections, the ANC replaced incumbent councilors in the municipalities affected by protests and warned against municipal government corruption.

This theory of protests as a signaling mechanism leads to very different predictions of how the ANC will distribute resources, as municipalities affected by protests should see an increase in support from the ANC. This leads to my third hypothesis.

Hypothesis 3: Municipalities whose citizens protest about a lack of government services will receive more support than other municipalities, all else equal.

The theories of how punishment regimes function do not include an analysis of the role of race and/or ethnicity, since these theories were developed in countries where politics are not

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<sup>4</sup> Gumede 2008

ethnically or racially based. This is equally true for Lorentzen's (2005) theory of the role of protests in China. I argue that it is possible for racial and ethnic attachments to affect how the central government doles out punishment and benefits. In South Africa, race correlates strongly with voter behavior. In particular, black Africans strongly support the ANC. Although the ANC also draws support from other groups, it may view all black South Africans as a sort of core constituency.

On the other hand, ethnicity may play this role. It is sometimes whispered that the ANC is a "Xhosa party" and that they unfairly favor Xhosa supporters. This stems from the major role Nelson Mandela, Oliver Tambo, and Walter Sisulu played both as founders of the ANC Youth League (ANCYL) in the 1940s and as core members of the ANC during South Africa's transition to democracy. Proponents of this theory also point to the fact that both Nelson Mandela and Thabo Mbeki – the first two democratically elected presidents – are Xhosa. It is thus also possible that the ANC (in the pre-Zuma era) could see the Xhosas as a sort of core group.

If the ANC expects that black South Africans should support them, and assuming that there is a punishment regime in South Africa, the ANC may act particularly harshly toward black Africans who do not support the ANC. Following the same reasoning, if the ANC expects that Xhosas should support them, Xhosa defectors may face harsher punishments than other ethnic groups when they do not support the ANC.

The opposite is true under the Lorentzen model. Since the government essentially encourages protests by responding in a positive manner, it is likely that whichever group they expect to support them will benefit more from protesting. Thus, if the ANC has a special relationship with black Africans, municipalities with a high proportion of black Africans will benefit proportionally more from protesting than do other municipalities who also protest. If on the other hand, the theory of ANC as a "Xhosa party" is correct, municipalities with a high proportion of Xhosas will benefit proportionally more from protesting than do other municipalities who also protest.

Finally, given how hard the ANC works to represent itself as both a multi-racial and multi-ethnic party, it may simply cater to its long-term supporters. It can be argued that these are the voters

most deserving of distributive resources, since they have proven their commitment to the ANC. If this is the case, municipalities with a history of voting for the ANC will benefit proportionally more from protesting than other municipalities.

To take advantage of South Africa's multiple levels of government with distinct responsibilities, I will test each of the three hypotheses detailed above at two different levels of government. This allows me to determine if the ANC employs the same strategy at all levels of government. Central government transfers to municipal governments should clearly reflect the ANC's preferred strategy, as this is also the only direct way in which the national government can punish or reward the municipal governments.

The allocation of municipal funds to different revenue categories under a punishment regime depends on whether or not your municipality is an opposition municipality (and thus being punished by the central government) or an ANC municipality (and thus receiving substantial support from the central government). I argue that we will most likely see some capture by local politicians in ANC municipalities, as the source of the revenue dictates what the money is spent on (Gibson and Hoffman, 2007). The basic choice is between spending on public services (that make all the constituents better off) or on private goods for the municipal councilors (e.g. more staff, nicer cars, bigger allowances). According to this theory, the larger the percentage of a municipality's revenue that comes from transfers, the less the municipality will spend on public services.

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