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THE DUAL ECONOMY: FIRST-CLASS CITIZENS, SECOND-CLASS CITIZENS?

* monograph 3

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About Development Dialogues

Development Dialogues is a joint initiative of Isandla Institute and the Open Society Foundation – South Africa. The aim of the public dialogue series is to create a space for critical reflection and dialogue among key development stakeholders in South Africa. In doing this, the organisers seek to make a (rather modest) contribution to enhancing the quality of debate in the development sector. Through *Development Dialogues*, Isandla Institute and the Open Society Foundation intend to bring about creative and constructive multi-stakeholder meeting opportunities that push stakeholders to think beyond the confines of their immediate interests and theoretical paradigms.

This monograph captures the speakers' inputs and discussions at the *Development Dialogue* on 'The dual economy: First-class citizens, second-class citizens?', which took place on 13 October 2005 at the Centre for the Book in Cape Town.

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Unfortunately, the organisers were unable to secure a government perspective on our topic for today. The invitation was continuously moved downwards and sideways, until in the end it was almost untraceable. My intention is not to speak for the government, but to make some opening remarks that will hopefully serve to ground our exchange of today.

The concept of the second economy was first introduced by President Thabo Mbeki in the State of the Nation address in 2003. Since then it has featured regularly in speeches of the President and it has become quite central to government thinking. In his 2003 State of the Nation Address, the President referred to the second economy as 'the state in which those who are marginalized from the first economy operate'. The concept, or as some would say 'the metaphor', was an attempt to come to grips with the persistent realities of poverty and under-employment in post-apartheid South Africa which stem from South Africa's own particular history of exclusion and deliberate underdevelopment, as well as from global processes of economic restructuring.

Since 2003 the dual economy concept has become rather commonplace in development discourse. It has been enthusiastically embraced by politicians and government officials in particular, perhaps because it has come from the highest political office, but also because the concept has struck a chord amongst those seeking to make sense of the duality that is evident in South Africa today.

On the one hand, South Africa is considered one of the 50 wealthiest countries in the world. It has a modern economy that is relatively well developed and is integrated into the global economy. It is this domain that is referred to as the 'first economy'. On the other hand, there are

high and growing levels of informality, poverty and marginalisation. It is this domain that is referred to as the 'second economy'. People in this domain are unable to actively engage in and directly benefit from the opportunities available in the 'first' economy.

Yet, despite the appeal in government circles, the notion of the dual economy has not gone unchallenged. Some of those who criticise it are concerned that the duality leads to simplistic interventions, aimed at 'eliminating' those economic activities that fall outside the formal economy or somehow try to merge the two domains into one. Others argue that the dichotomy itself is false and that there are many areas of overlap and interlinkages between what is called the first economy and what is called the second economy. Someone like Eddie Webster takes this even further and proposes that what is called the second economy can hardly be described as an economy, because these activities cannot expand independently and stimulate new economic activities. Others might perhaps argue that acknowledging the existence of the second economy and developing interventions specifically to support economic activities in this domain

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mainly serves to legitimise the exclusionary aspects of a capitalist economy.

In terms of assessing the usefulness of the dual economy concept, we need to ask ourselves not just how the distinction between the so-called 'first' and 'second' economy helps to explain the persistence of poverty and underdevelopment in South Africa, but – perhaps more importantly – how this distinction helps us to address and overcome these realities. Again, the President enlightens us.

In a speech to Parliament in May 2004, President Mbeki said the following 'at the core of our response to all these challenges is the struggle against poverty and underdevelopment which rest on three pillars. These are: encouraging the growth and development of the First Economy, increasing its potential to create jobs; implementing our programme to address the challenges of the Second Economy; and, building a social security net to meet the objective of poverty alleviation.

With respect to the first economy, there is little contention that accelerated economic growth is

the main goal. But as public debates in the past eight or ten years have shown, there is no consensus on how to achieve this or how to ensure that economic growth is 'pro-poor' or 'pro-labour', as opposed to growth in capital intensive and relatively high-skilled sectors. It is also clear that robust economic growth alone is insufficient to address poverty and underdevelopment.

The third pillar identified by the President, the social security net, undoubtedly provides an important safety net for a significant number of South Africans. Whether such grants create dependency or are in fact developmental is another debate. However, a key issue is that many people who need such a safety net are not eligible for those grants.

Therefore, the limitations associated with the first economy and with the social security system respectively in overcoming under-development and poverty make second economy interventions so much more pressing. However, as with other appealing concepts and official policy discourse (take, for example the notion of the developmental state), there is little in the way of a clear and coherent strategy to support second economy activities. In its recent Development Report titled, 'Overcoming Underdevelopment in South Africa's Second Economy' the Development Bank of Southern Africa goes even further by arguing that current second economy interventions are designed in a way that does not suit the poor and ordinary person, with the assumption being that those in the second economy need to be supported to somehow make the transition to the first economy or at least somehow link to the first economy. Instead, the report argues, interventions need to be designed that assist people to perform better within their existing economic potential.

The dual economy concept has been enthusiastically embraced by politicians and government officials, perhaps because it has come from the highest political office, but also because it has struck a chord amongst those seeking to make sense of the duality that is evident in South Africa today.



Does the dual economy concept allow us to respond to persistent poverty and underdevelopment in a coherent, just and sustainable manner?

To realise this, the report concludes with a number of policy implications.

Firstly, there is a need to distinguish between segments in the second economy rather than seeing it as one monolithic entity. Current interventions tend to target those who are relatively better off and thus those interventions are less accessible and useful to others. Secondly, there is a need to recognise and build on people's capacities, skills and experience, rather than introducing them to productive activities which

may be considered as marketable, but with which they are not familiar. Thirdly, there is a need to better understand the real constraints to realising people's economic potential, instead of assuming, for example, that lack of credit is always the key problem. And finally, government itself needs to learn from past experiences.

To conclude, our focus today is on the usefulness of the distinction between the 'first' and 'second' economy and what the policy implications of this distinction are. Does the distinction help us to better understand the co-existence of poverty and wealth, underdevelopment and human flourishing in South Africa? More specifically, does it allow us to respond to these realities in a coherent, just and sustainable manner? Or does it perhaps serve to do the opposite: reinforcing a dual system of citizenship in which the rights and privileges of a relatively small minority are protected while the rights of the marginalised majority become secondary? ■



When I returned from 30 years in exile, to my horror it was like being the bad fairy at the christening. Following our wonderful miracle, we came to our liberation at the time of the triumph of the global international market in capital and trade which I had seen run down the European economies. I had watched that happen over the previous 30 years. I with others started something here called South African New Economics. In the little time allocated to me, I would like to discuss a new theory which we are developing in South African New Economics.

There are two economies, actually there are at least three economies, and we know how they developed historically in South Africa. We know that there is an excluded and an included group of people in South Africa; formerly the included were white and the excluded were blacks and they operated outside the mainstream economy. Before we finished with apartheid, the reason why people operated outside the mainstream economy was that as black people, they were simply not allowed to take advantage of the opportunities that were available. You were part of the second economy because you were excluded by structural factors.

Now we say, 'we do not have those structural factors anymore, so why is it that we still have this included section, which now includes some black people, and this excluded sector which now includes some white people?' We are divided into those who are able to and those who are not able to participate in the mainstream economy. The question is, why are they still not able to?

I think the reason why we have not got any further than we have is that we have not analysed it properly. We say things like: we are short of skills. But what sort of skills are lacking?

The response often is: 'every kind of skill.' I happen to go to church in Guguletu and in my own congregation there are hundreds of people who are very well skilled and experienced but who are losing those skills because they have lost their jobs.

It is not a shortage of skills in large segments of the population; it is a shortage of jobs. It is a shortage of work, not a shortage of skills. That mantra has been used in Europe and United States to account for the failure of the economy to produce jobs and has been adopted. Forgive me for saying these things rather boldly, but I have limited time to present my argument.

We are talking about an economy which is not producing jobs and work. Why not? This is what I would like to suggest to you: it is the way that the global market operates.

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with apartheid, the reason why people operated outside the mainstream economy was that as black people, they were simply not allowed to take advantage of the opportunities that were available. You were part of the second economy because you were excluded by structural factors.

Money. That is the stuff we use to buy and sell things with, there is nothing mysterious about it. Money is taken from the bottom of the economy, and the statistics are absolutely incontrovertible in every country in the world, including the wonderful Scandinavians. Even there the money is sucked up to the top. It is sucked up to the top so fast and so absolutely that large areas at the bottom of the economies – all of them, including the United States – are virtually cashless. Anybody here who goes to our rural areas will know there are places where there is no money except what is coming in as grants. It is the only money that is descending again. The rest of it is just being sucked up and what happens to it at the top? Where does that money go? Do people spend it, the people who are earning it at the top? No, you cannot spend millions every year. You give it to your asset manager. There the money is effectively hoarded.

I want to say this very clearly: billions of money sits in the financial sectors. It has been used to go round and round the world itself, money, currencies, stocks, shares and to trade in property. That is why property prices go up all over the world. This money is not coming down to the economy. So the first thing is that money goes up and out of the real economy. Unless we analyse that and stop talking about developing skills, we do not really come to some conclusions about how we develop the part of the economy that is outside of it.

The second reason why there is a chronic, and I would even say catastrophic, lack of purchasing power in all market economies (which means all economies, as there are no others) is that business, the corporate sector, people who operate buying and selling in the market have to, not choose to, shed labour in favour of capital intensive forms of production. They have

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to, otherwise they do not compete successfully. It is not a question of 'let's get rid of some of these wretched workers and let's buy in a machine'. If we do not, we will not compete globally and the reason why we will not compete globally is that every country in the world is seeking to attract that capital sector to invest in that country. And how are they doing that? Very low and very unregulated wages so that right at the bottom of the economy, all over the world, even in places like Britain and even the United States that had a decent platform of wages, wages have been descending in the last 30 years.

We have lower, not higher, but lower standards of living at the bottom of all economies and that is the only way that anybody is employed as opposed to machines. Let us remember this global market, the whole point of it. Nobody said it was good for people; they said it was efficient. The whole point of it is supposed to be efficient. This, the global market in trade and capital, forces people to use less of the factor of production that we have most of in the world: labour, people. We have the least amount for the most common factor of production – labour – in favour of the factor of production which is rapidly running out – fuel for energy-based





machinery. In the near future, we will not be able to do that anymore, but our economy forces people in the market economy to get rid of labour in favour of capital-intensive stuff, so we are heading for a problem anyway in that.

The results of where we are now – and this is the point I would like to make – is that until we analyse the problem, which is lack of purchasing power, lack of buying power, lack of money in the hands of people to get the economy going, the market economy is doomed. And I want to say, just in case you got any other impression, that there is no other form of economy that worked in the Soviet Union or in other places. You cannot

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have government deciding who should make what. The only way that an economy works is in the market, so we have to make this economy work.

The question is how to bring money into the hands of the people who need to buy the stuff that other people are making. There is not one commodity in the world that is what they call 'undersupplied'. Anywhere in the world, whether it is motorcars or shoes or apples, they are all over-supplied. The other world for over supplied is, of course, under-demanded. Are there people who do not need those things? No, there are lots of people who do need them. The problem is the distribution of buying power; that is what has not been correctly analysed. That is why we talk about skills development and how to support small businesses.

I know so many small businesses that have gone out of business, not because they are not wonderful seamstresses and cobblers and bike repairers, because nobody has got the money to buy from them. Anybody who works in poor communities knows this. Nobody has got the money to buy from the people who have the skills and even the capital.

It is not even a shortage of capital to produce. There simply is not enough money at the bottom. Now what do we do about that? As far as I can see, there is one group of people that we really need to employ. People who make mining equipment and so on do not need more people; they can use the machines. But there is a huge category of people that we really, really need more of, if only we could transfer the surplus which is going up and out of the economy into employing these people. I am talking about health workers. We could do with a million workers in HIV alone. I am also referring to construction workers. We absolutely need them to build more houses. What about prisons? What about the people who are supposed to be rehabilitating prisoners? What about police who are desperately running after their own tails because there are too few of them? And public transport, do we not need more of that to get out of our motorcars and go along in public transport?

In short, the huge area of the public sector is grossly under-peopled. Why? It is that we do not have people down there, who could do the work? Is it that for some reason in the last 30 years people who have descended the birth canal are unable to take jobs effectively?

When I lived in the United Kingdom for a while the rate of unemployment was two percent. That was considered normal. But an unemployment rate of 40% and even 20% is ridiculous. We need the

demand in order to keep the existing economy going. It is fading out and the problem is finding the money to employ them.

Maybe it comes down to, first of all, accepting that as an analysis it is not about something called the second economy, which came in with apartheid or whatever. It is not about lack of skills – they can be trained very easily. What it is about is lack of purchasing power, lack of money in the economy. One way of doing it is straight through the Basic Income Grant. Give it to people you want to have money, give it to them. That is one way of doing it. Another way is to develop a cadre of people that we really need in employment, and that means new forms of taxation. ■

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In South Africa we are all a bit politically schizophrenic, because we wear so many hats. Today I am definitely not wearing my South African Communist Party hat, which gives me some distance to also engage with the thinking of the Communist Party, particularly around the dual economy.

There are two versions of the 'dual economy' perspective in South Africa. The first is a popular metaphor that refers to the duality of the 'first economy' and the 'second economy' and is an adjunct of the 'two nations' thesis. The second version is presented as a scientific thesis which suggests in the first place that the 'first economy' and 'second economy' duality has to be located within the abstract, but more precise, concept of 'one capitalist mode of production'. That means there is a dualism in the one capitalist mode of production, that is, developed and underdeveloped. In the second place, the causal relationship needs to be clearly articulated between the developed and underdeveloped aspects. In other words, the first economy causes the underdevelopment of the second economy. This is the necessary condition for the existence of the developed side vis-à-vis the underdeveloped/second economy reality.

I agree with the latter thesis to the extent that we are dealing with one capitalist mode of production in South Africa. However, for me there

are two important problems or issues that are obscured when working with these conceptions of South Africa's political economy. First, the more scientific thesis together with the first economy/second economy metaphor presents us with a trans-historical image which applied to pre-1990 South Africa, in which you had a relatively protected and closed economy (although not fully autarchic) and which it is argued applies now to contemporary South Africa. For me this is inaccurate. We need to ask: what has happened to the South African political economy over the past 15 years, since 1990, with the globalisation and opening up of the South African economy through comparative and competitive advantage driven liberalisation? Has the 'first economy' or developed side of the economy remained static or untouched by processes of marketisation and adjustment led by the state? Second, what has been the role of the state and what has it become within the context of a relatively open post-apartheid political economy? Both the two economies perspective and capitalist mode of production thesis seem to artificially remove the state from view. For me, if you answer these two questions our conception of South Africa's political economy today will be drastically changed.

With regard to the first question, in my view, the adjustment of the South African economy and its integration into the world economy over the past 15 years, on the terms of global and local capital, has served to fragment our internal political economy. This has produced externally orientated enclaves in two ways. First, in the macro-economy across sectors, including our labour-intensive sectors, we have reallocated resources through liberalising. This has skewed our manufacturing base towards external markets.

The adjustment of the South African economy and its integration into the world economy over the past 15 years has served to fragment our internal political economy.

While we have been able to increase the growth of manufactured exports (and have continued our external dependence on capital goods in this enclave) we have also done this in a manner that is not labour absorbing and, worst still, we have hollowed out or killed certain sectors of our manufacturing base in the name of adjustment, based on comparative and competitive advantage. As we continue down this path we run the risk of being further peripheralised within the world economy and actually becoming a fourth world economy in production capacity terms.

In the second place, we have promoted externally orientated enclaves at the sub-national level. This means through provinces and cities we are hoping to link in with the globalised market that is meant to develop us. In Gauteng province there is a debate and firm policy position from the African National Congress about developing a 'competitive city region' which is able to connect with global trade, finance and production networks. What does this mean for South Africa? It means Gauteng, like California in the USA or parts of eastern coastal China will be dislocated from the rest of the country placed off-shore"- and integrated into the world capitalist system. Is this also using our comparative advantage to benefit all of us, or is this going to reproduce uneven and fragmented spatial development? In short, market liberalisation of the South African economy over the past 15 years, and intensified with the adoption of GEAR, has served to skew the South African economy such that the first economy, or developed side of the capitalist mode of production, itself is fragmented.

This fragmentation, brought about by the way in which we have embraced market-led adjustment, has also been further intensified with the role and transformation of the South African state. With the

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adoption of neo-liberal policies in South Africa since 1996 the South African state has not disappeared or become less important, but has been re-inventing itself. In the main, its policy role has become one of marketising or commodifying more and more activities, creating the conditions for greater accumulation and also introducing 'business efficiencies' into the state. It has in effect become a state disciplined and regimented by the market. It is subsumed or subordinated by the market. Some would call this a 'competition state', a form different from the welfare or strategic interventionist developmental states.

The sum effect of this is that the South African state, as it has shed some of its functions to the market and has tried to ensure the logic of competitive advantage dominates economic life, has itself been fragmented. There is no common developmental vision outside of the dogma of 'competitive advantage' that holds the South African state together. As a result intra-state competition between departments and different levels has become the norm and reality.





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In short, the political economy of our new South Africa is best characterised as a fragmented capitalist mode of production rather than a dualistic/two economies reality.

What does this mean for citizenship? I believe there is no mechanical correspondence between a dual economy and therefore first class and second class citizens. To understand the implications of South Africa's fragmented capitalist mode of production for democracy means we have to deploy a historical materialist perspective. This does not mean that history is linear, inevitable or predictable. There are two important points to make. The first is that with the advent of capitalism, initially through agriculture and mining and later industrialisation, modern South Africa has been a class-divided society. Today, it is still a class-divided society despite the existence of a national liberation movement, and it has become objectively speaking an even more class-divided society in a post-apartheid context.

In this regard, and in this audience we can take the poverty statistics of the past ten years of freedom and democracy as read, we know that workers and the poor have become worse off.

Wage gaps are grotesque, relative and absolute poverty has increased.

The second point, from a historical materialist perspective, is that our own transition to democracy coincided with the end of the Cold War and the collapse of Eastern Europe. This gave the West the opportunity to promote economic liberalisation and liberal democracy as the only answer for all of humanity. It has been universalised as the absolute truth.

This conception of democracy, which is minimalist and procedural, found its way to our shores together with economic liberalisation. This has clashed with our own indigenous traditions of revolutionary nationalism and republicanism which places the people at the centre of democracy and social change. However, it is apparent that the transition to institutional politics is eroding these traditions and we are seeing the 'embourgeoisment' of politics. Struggle for change is being reduced to narrow electoralism and from the perspective of liberal democracy we are all equal citizens before the law and we should vote for our rulers every five years and wait for change. In short, the creeping hegemony of bourgeois, liberal democracy masks the deepening inequality and poverty amongst us.

If this is not reversed South Africa will construct what has become known as an "exclusionary" or "low intensity democracy" that is a complete betrayal of the politics and kind of revolutionary democracy envisaged in the Freedom Charter. Our state would be accountable to an external constituency – the G7, World Bank, IMF, WTO – which never voted it into power. ■

AFTER THE INPUTS, THE FLOOR WAS OPEN FOR QUESTIONS AND COMMENTS. ISSUES THAT WERE RAISED INCLUDED:

- South Africa has a formal and informal economy, which are very closely linked. In the informal economy people are by nature very unskilled, and contrary to the point made by Margaret Legum there is an enormous deficit of skills. Very few people are equipped to run their own enterprise, and some lack the financial capacity to start, run and make a success of an enterprise.
- We should let go of the idea that people do not have skills. Research conducted in the Eastern Cape indicates that many trading stores, for example, are going out of business in the face of competition from big chain stores, which are often located at the same site as the only ATM in a rural area. This is helping to keep local economic activity on the margin.
- Why did South Africa move away from the mixed economy model?
- It is difficult for small businesses to remain viable in South Africa. Banks are reluctant to grant them credit and paying VAT is a challenge.
- What role could agrarian reform play in overcoming structural problems with the economy?
- As a small economy South Africa is not in a position to ignore the expectations of the G8 and will be forever linked into the global economy.
- How does one account for the fact that the ruling party has embraced the two economies thesis, to which it is held hostage? How is it that this had happened?
- It is nice to imagine local economies within the global economy but this is often linked into nationalist and even xenophobic discourse.

Migrant labour and the need to facilitate the movement of people from marginal areas have to be taken into account.

- It is very difficult for a wide range of people, particularly young people, to participate in debates about the economy, because much of the discourse does not facilitate wide spread participation.

IN RESPONSE, THE SPEAKERS MADE SOME CONCLUDING COMMENTS:

Margaret Legum

I do not believe that the first and the second economy are unique to this country. I think it is a global condition. Apartheid is often seen as the only reason for this, but I think the second economy is growing all over the world, because it is a feature of the global market. This is creating a deprived underclass of people who are outside of the tax system. Ours has a different origin, but it is being deepened by these global processes.

Within the second economy people need other people to buy their goods, but they fail in this as people do not have money in their pockets. People are surrounded by people who are potential markets, who need the goods and services on offer. In South African New Economics we talk about 'plugging the leaks'. We are developing our own currency in some communities outside of the real economy that will let people trade where banks cannot snatch it.

When it comes to tax, if you put a tiny tax on every transaction you could do away with all tax. This would be much more difficult to evade than ordinary tax, and is a way of raising money that is simpler. You could then also give everyone a Basic Income Grant to put money into the hands of ordinary people.





We know that economic growth has nothing to do with jobs. With regard to the discourse of economists I also do not understand what headline earnings refer to. It is ideological and only a very small percentage of people understand it. I have three degrees in economics and in economics people live to present things so that other people do not understand them.

The way that we link to the global market is mostly about power. In the last five years one country – Malaysia - decided to defy the international rules despite its lack of power. For six to nine months Malaysia withdrew from the global market to recover from people pulling out their money. President Mahathir did as suited his country. It is possible to do, but it takes huge courage.

In response to the question why the ruling party has embraced the two economies thesis, indeed, why are the ANC with its wonderful history, Blair, Schroeder and Merkel all saying the same thing? It is all about, 'this is what we have to do – this is the global market'. The ANC felt it had no alternative. Global capital calls the shots because it can leave. It can say 'bribe me to stay here'. Global capital can go anywhere. It is not just poor us, there is no country that does not have to play court to the global economy. And there is no such thing as economics; it is political economy that matters.

Vishwas Satgar

I think the reason why the mixed economy was abandoned was about the conjuncture in 1990. The Second World disappeared and this impacted on our agenda. The Freedom Charter, which we are celebrating this year, resonates with the mixed economy idea, and there is also a debate about the developmental state.

South Africa cannot go it alone and the regional dimension is very important, which is linked to NEPAD. The process of regional integration is multi-dimensional and has the potential to harmonise resource bases within the region.

We need to understand who controls the economy. It is primarily local monopoly capital, but global capital also plays a role. With regard to exports from China, we could introduce tariff protection. Europe developed like this and Japan did in order to nurture and protect their industries. Size also matters. China has a number of things going for it besides the size of its economy. It clearly did not want to get into an arms race with America, unlike the Soviet Union.

No matter where we are ideologically, we need to take the question of democracy very seriously. We have to work with more than the minimalist conception of democracy. You cannot separate politics and economics. We have to think about voices, not about fortresses. ■





THE DUAL ECONOMY: FIRST-CLASS CITIZENS, SECOND-CLASS CITIZENS?

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CENTRE FOR THE BOOK, CAPE TOWN

ABOUT THE PANEL:

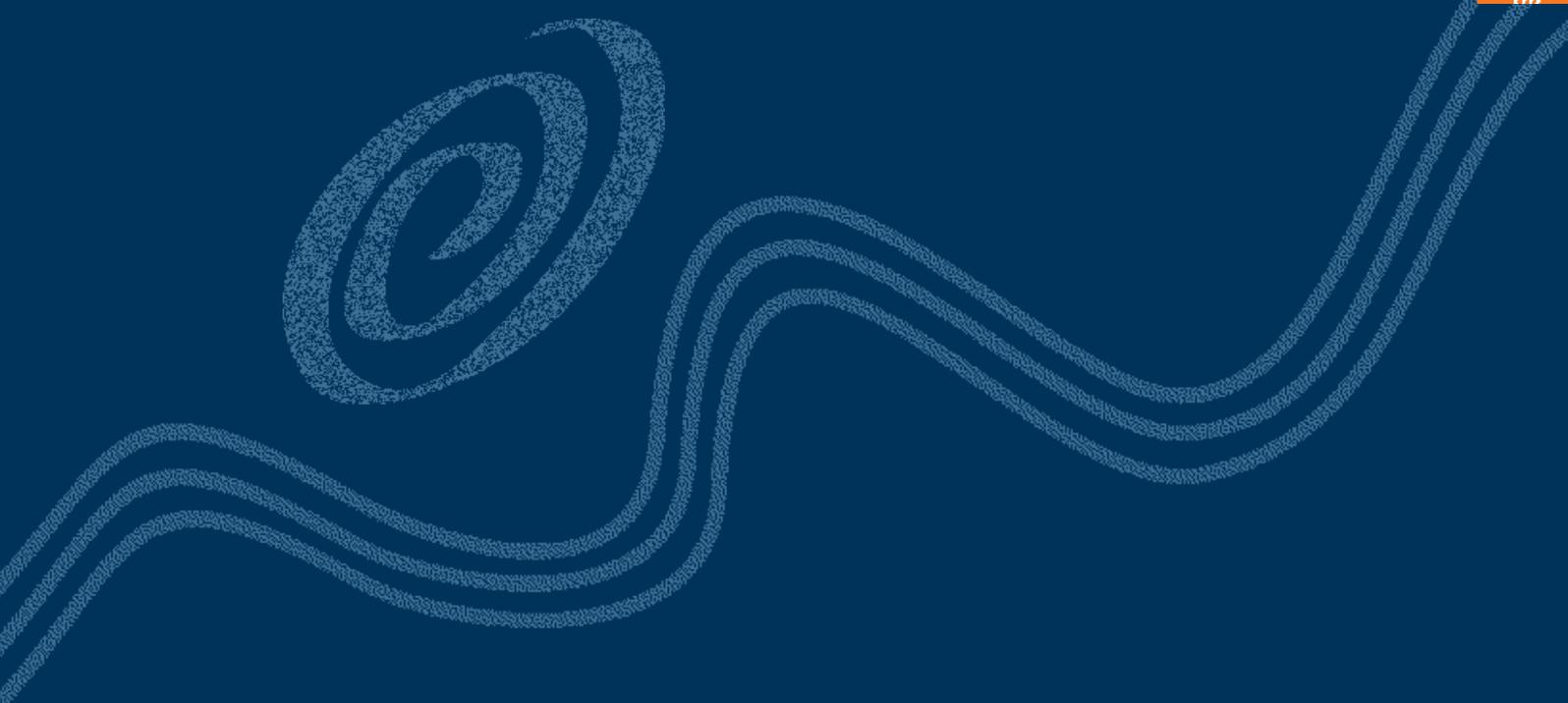
Margaret Legum holds an MA in Economics from Cambridge University and is a founder member of South African New Economics (SANE). An experienced trainer with a previous background in counselling, education, management and race relations, she has founded the consultancy PACE (Preparation for Adaptation to Changing Environments). She is a member of the Swiss-based Transitional Dynamics Network (TDN) and an associate of Organisation & Social Development Consultants (OSDC) and Gender & Planning Associates (GAPA).

Vishwas Satgar has been the Executive Director of the Co-operative and Policy Alternative Center for the past six years. Through this NGO he has contributed to the development of models, practices and methodologies that promote co-operatives and self reliant local economic development. He previously worked for COSATU on labour law reform. He has also been an activist for the Congress Movement for the past 20 years and continues his political commitment through the SACP. He is currently the Provincial Secretary of the SACP in Gauteng.

Mirjam van Donk is the Director of Isandla Institute.



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