

In search of South Africa's  
Second Economy:  
Chronic poverty, economic  
marginalisation and adverse incorporation  
in Mt Frere and Khayelitsha



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**November 2007**

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**CPRC Working Paper 102**

Chronic Poverty Research Centre  
**ISBN 978-1-906433-01**

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They are responsible for co-ordinating CPRC work in South Africa.

## **Acknowledgements**

This paper is a reworking and elaboration of a paper presented at the March 2003 'Living on the Margins' conference (du Toit & Neves 2007), and is being published in shortened form in **Africanus** 36(2) and a reworking of a more elaborate and detailed report produced for the South African National Treasury (du Toit & Neves 2006). The 2002 PLAAS livelihood survey to which this paper refers was funded by DFID through the Chronic Poverty Research Centre (CPRC); the qualitative research referred to was commissioned with funds from USAID for the South African National Treasury via SIPP: a research programme aimed at 'Strengthening the Impact of Pro-Poor Programmes' in the Budget, and was co-funded by the CPRC. Thanks are offered to Armando Barrientos, Henry Bernstein, Colleen Crawford Cousins, Thomas Cousins, Yazir Henry, Sam Hickey, Alan Hirsch, Uma Kothari, Charles Meth, Nicoli Nattrass and Debbie Potts.

This working paper is a co-publication with PLAAS and CPRC.

## **Abstract**

Since 2003, South African policy discourse about persistent poverty has been dominated by the notion that poor people stay poor because they are trapped in a 'second economy', disconnected from the mainstream 'first world economy'. This paper considers the adequacy of this notion in the light of research conducted in 2002 and 2005-2006 in Mount Frere in the rural Eastern Cape, and in Cape Town's African suburbs. It argues that a process of simultaneous monetisation, de-agrarianisation *and* de-industrialisation has created a heavy reliance on a formal sector in which employment is becoming increasingly elusive and fragile. Fieldwork suggested high levels of economic integration, corporate penetration and monetisation even in the remote rural Eastern Cape. Rather than being structurally disconnected from the 'formal economy', formal and informal, 'mainstream' and marginal activities are often thoroughly interdependent, supplementing or subsidising one another in complex ways. The dynamics of these diverge significantly from those imagined both in 'second economy' discourse and in 'SMME' policy. Instead of imagining a separate economic realm, 'structurally disconnected' from the 'first economy,' it is more helpful to grasp that the South African economy is both unitary and heterogeneous, and that people's prospects are determined by the specific ways in which their activities are caught up in the complex networks and circuits of social and economic power. Rather than 'bringing people into' the mainstream economy policymakers would do better to strengthen existing measures to reduce vulnerability, and to consider ways of counteracting disadvantageous power relations within which they are caught, and supporting the livelihood strategies that are found at the margins of the formal economy.

**Keywords:** South Africa, Eastern Cape, second economy, globalisation, social exclusion, adverse incorporation

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## 1 Introduction

Few notions in South African policy discourse have been simultaneously as influential and as undefined as the notion of the 'second economy'. First introduced by President Thabo Mbeki in his now-famous August 2003 'Letter from the President', the term has become central to the way that the causes of persistent poverty are conceptualised in public discourse in South Africa. Conferences are launched to 'empower', 'develop' or 'bring information to' the 'second economy'; government websites speak authoritatively both of its problems and its potential. At the other extreme the Deputy President's announcement of a new initiative for accelerating shared growth in South Africa identifies the need to 'eliminate' the second economy (Republic of South Africa 2006). But precisely what is *meant* by this term – what constitutes the second economy, and what are the characteristics that make it 'second' — is generally not very clearly spelled out; and how it is to be either 'integrated' into the 'first economy' or 'eliminated' is even more unclear.

In this paper, we engage with the ambiguous potential of 'second economy' talk by comparing its underlying assumptions with the findings of a period of research into the structured dynamics of persistent poverty in two South African contexts: a group of villages in the North-East of the former Transkei in the Eastern Cape; and two neighbourhoods in an African township on the periphery of greater Cape Town. In doing so, we are not taking official pronouncements about a second economy literally. As officials have argued, it is merely a metaphor. We argue, however, that metaphors matter; that, once assented to, they shape the kinds of questions researchers and policymakers can ask. And while the introduction of the idea of a 'second economy' constitutes an important shift in official discourse, we argue that it is not a satisfying or adequate account of the real dynamics of economic marginalisation; and that in fact it perpetuates some problematic misapprehensions about the supposed relationships between 'margins' and the 'centre' in South Africa. Understanding these dynamics, we argue, requires a much more careful look at the actual ways in which particular people are caught up in the networks and circuits of a *single* internally differentiated and segmented economy. This reveals a very different picture and highlights some issues that are usually disregarded. To search for the second economy, we argue, is to look for something that is not there — and to miss much of what is.

Our argument here is part of a continuing theoretical exploration of the intellectual resources that are available for the work of understanding and exploring chronic poverty and inequality in South Africa and beyond. And although the problematic we address here is very much a South African one, rooted in local policy debates and realities, we believe it has international echoes: 'second economy' talk draws on habits of thought and unreflectively held assumptions that are more broadly shared within the discourses of development and globalisation, and particularly those that relate to notions of 'social exclusion' or to the links between global integration, growth, inequality and poverty. This

paper, then, is intended to contribute to debates on the role of social exclusion and adverse incorporation in the perpetuation of chronic and structural poverty. Reflecting on the complexities of economic marginalisation in South Africa, may cast valuable light on some of the more general features of the processes and problems focused on in the conceptual frameworks of adverse incorporation and social exclusion (AISE) (for a more detailed discussion see Hickey and du Toit 2007).

We begin with a brief account of the rise of 'second economy' talk and its reception. This is followed by a brief overview of the research project on the findings of which this paper is based and a discussion of poverty, migrancy and 'adverse incorporation' in the Eastern Cape and in Cape Town's African townships. The paper next considers what these realities mean for informal sector activity and self employment. We close by drawing some interpretive theoretical conclusions, and by highlighting some of the challenges facing pro-poor and social policy in South Africa.

## **2 The rise of 'second economy' talk**

Some of the importance of the concept of the second economy in South Africa, as articulated in policy discourses there, is undoubtedly related to the manner and timing of its introduction. By 2003, it was becoming increasingly evident in South Africa that there were problems with the Growth, Employment and Redistribution strategy (GEAR), which had formed the cornerstone of South African government policies for macro-economic stability, economic restructuring and growth. However successful GEAR had been in guiding fiscal policy, it had clearly failed as a job creation and redistribution strategy (for example, see Gelb 2006; but see also Nattrass 1996). National surveys seemed at the time to tell at best an ambiguous story about what was happening to poverty (Fedderke, Manga & Pirouz 2004): even the most optimistic analyses were suggesting that poverty had remained more or less constant, while others seemed to indicate that it had worsened (Meth and Dias 2004; Hoogeveen and Özler 2005 etc). Government's nose had been put even further out of joint by an unexpectedly critical UNDP report on development in South Africa (UNDP 2003). Policy debates about a variety of issues, from the fate of the Reconstruction and Development Programme (RDP), to GEAR, to the Basic Income Grant, seemed to have reached an impasse, and tensions between conservative and radical elements within the tripartite alliance between the governing African National Congress (ANC), the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP) were growing.

In this context, President Mbeki's intervention – in the form of a set of broad pronouncements set out in his weekly party missive to the African National Congress, played an important role in reframing the terms of official thinking about growth, poverty, race and national identity. Hitherto, Mbeki had tended to describe poverty in South Africa exclusively as residual: as a legacy of Apartheid and the policies of the past. While his interventions often showed a lively appreciation of the reality of deep inequality in South Africa, he had hitherto

tended to portray it as an inequality between two *nations* — language that framed the problem as essentially one of national reconciliation, not macro-economic strategy (Faull 2005).

The August 2003 'Letter from the President' marked an important break. While it still bore the title "Bold steps to end the 'two nations' divide" it now depicted the key division in different terms: inequality and poverty were portrayed as the result of a "disjuncture" within the structure of the economy itself. Perhaps borrowing from Allister Sparks's argument earlier that year that South Africa suffered from having a 'double-decker economy,' (SARPN 2006) he postulated the existence, "side by side with the modern 'first world economy'", of a "third world economy" that contained most of the poor people in the country. Crucially, Mbeki argued that "the interventions we make with regard to [the first world economy] do not necessarily impact on these areas, the 'third world economy', in a beneficial manner." Explicitly questioning predictions that the benefits of growth would "trickle down" to poor people, he argued that "the reality is that those who would be affected positively, as projected by these theories, would be those who... can be defined as already belonging to the 'first world economy'." What is needed, the letter argued, are interventions that could benefit those in the "third world economy" directly.

This was not a radical about-turn, but it was a significant shift. It indicated a move away from the assumption that GEAR on its own could serve to eradicate poverty (Faull 2005) and cleared the way for a much greater emphasis on the role of a 'developmental state'. At the same time, there were some ambiguities in the way in which Mbeki framed these possibilities. Although the letter explicitly suggested the existence of a "structural disjuncture," in the South African economy, it was very sketchy about the exact nature of this disjuncture. It referred concretely only to the fact that many unemployed people lacked the skills that would render them employable in the 'first world' economy, and to the absence of appropriate forms of credit, a lack which supposedly delivers poor people into the hands of unscrupulous and extortionate money-lenders. Secondly, while the letter clearly acknowledged the possibility that poverty was not simply a disappearing legacy from the past but might be perpetuated by features of the *post-transition* order, the functioning of the "first world economy" *itself* was not problematised. In fact, the "first world economy" was still seen as the powerhouse that would generate the resources that could be used to benefit those in the "third world" economy. The purpose of interventions directed at this laggard sector would still be to allow it to "outgrow its 'third world' nature" and to "become part of the 'first world economy'". In many ways, in fact, Mbeki's analysis seemed reminiscent of very familiar – and largely discredited - dualist and liberal conceptions of the South African and other 'developing' economies (for an overview, see Potts 2007).

Mbeki's intervention was followed by some other important policy documents. The Presidency's Policy Co-ordination and Advisory Service's *Towards a Ten Year Review* replicated Mbeki's analysis in many ways (PCAS 2005:97), and appears to be the moment at which the term 'the second economy' itself entered

government discourse (those words, interestingly enough, were not used at all in Mbeki's 'letter'). After this, it swiftly became a key organising concept in government thinking about policy and implementation. As Jonathan Faull pointed out, it is remarkable how in less than two years, reference to these notions "has become stump material for politicians, journalists, activists and academics alike and an integral component of contemporary political jargon" — key elements of a rhetoric that now informs "a substantive framework of policy and programme of action with tangible effects on the roll-out of services and societal interventions" (Faull 2005:9).

Although these shifts have been lauded as helping to create more space for analysis and debate, the notion of the "second economy" itself has met with a mixed reception. Among free-market liberals and businesspeople, the second economy was very quickly equated with the informal sector and a focus, not on Mbeki's warnings about the failure of trickle-down, but on an essentially De Sotoan package of measures that would supposedly liberate the entrepreneurial potential waiting to be tapped in the informal sector (for example see Centre for Development and Enterprise 2006). Towards the left of the political spectrum, Mbeki's recognition of the limited impact of growth on poverty was welcomed; but the notion of the second economy was decried as an intellectual sleight of hand directing attention away from how the normal workings of the capitalist mainstream economy helped produce poverty and unemployment. (Frye 2007). Nonetheless the notion has persisted. Even those who warned against simplistic or literal interpretations of the notion of the second economy still affirmed some of its key assumptions, and welcomed the ways in which it allowed recognition of structural disjunctures created by the legacy of Apartheid (Nzimande 2005, Baumann 2004, Aliber 2006)

This is one of the more interesting aspects of 'second economy' discourse in policy debates. Perhaps its power and importance does not lie in the literal accuracy of what it says about the South African economy — clearly the notion of the second economy as an entirely separate economic realm with its own internal flows, boundaries and central institutions is rather easy to discount — but in its ability to provide a powerful and suggestive *shorthand* that can serve to name or frame the deeply segmented nature of South African society. As the South African Presidency's Alan Hirsch has argued, the notion of the second economy is simply a 'metaphor', a way of opening a debate on structural determinants of poverty in South African society.

Frye's response to this ("Policies should not be built on metaphors" (Frye 2007:176) seems to miss an important point: Insofar as policies need to interpret, simplify, and make sweeping sense of reality, they *always* rely on metaphor. A more searching response to Hirsch might be to say that one should never say "*simply*" a metaphor. Metaphors are lenses; they play a crucial role in organising the way the world is interpreted, and for that very reason they always have consequences. While they may sometimes help us grasp a complex reality in powerful and intuitive ways, they can also give rise to misunderstanding, and direct attention away from what matters. The question, therefore, is not only

whether “second economy” discourse offers an accurate analysis, but also what conceptual baggage and unstated assumptions it can import into analytical and policy discussions.

One important effect of “second economy discourse,” for instance, is that it sets up an elementary dichotomy between “integration” and “disconnection”. As one of us has argued elsewhere, proposing that the problem lies simply in exclusion leads almost inevitably to the unreflective and automatic assumption of the need for inclusion (du Toit 2004; see also Hickey & du Toit 2007). Proponents of second economy discourse do not deny that links exist between the economic mainstream and poor and marginalised people and regions — indeed, given the abundant evidence of a long history of incorporation and integration; they would be hard-pressed to do so. Rather, they seem to argue either that *where disconnection exists*, it is intrinsically disadvantageous; or that disadvantage, where it exists, *must be due to some form of disconnection*. So although the existence of connections is not denied, “second economy” discourse predisposes policymakers to seek a “better integration” — which is almost universally understood to be a tighter, closer one — and leaves untouched the underlying assumption that this larger system into which people need to be integrated will necessarily function to their advantage. ‘Second Economy’ discourse is not unique in this regard. These are broadly shared assumptions in many streams of development discourse. In sub-Saharan Africa, for instance, it is a crucial theme in interventions such as the New Partnership for Africa’s Development (NEPAD), which envisions the development of Africa through a programme of modernisation premised above all on the idea of ‘effectively managed integration’ into a globalising world (NEPAD 2001:6); it is a core assumption in World Bank discourse about the relationship between globalisation, growth and poverty reduction (e.g. Collier & Dollar 2001, and see also DFID 2000); and it is a key element of right-wing revisionist defenses of colonialism and neocolonialism (see e.g. McGreal 2007).

Furthermore, the notion that poor people are poor because they are trapped in a parallel, structurally disconnected realm is linked to another important discourse about poverty — one which links poverty alleviation centrally to service delivery. As Bank, Kamman and Meyer have pointed out this discourse approaches poor South Africans in the first place as passive citizen-consumers, constructs poverty essentially as a matter of inadequate delivery of social services, and thus imagines poverty reduction to be essentially a matter of the delivery of these services — and, especially, their rolling-out to “deep rural,” “remote”, “disadvantaged,” or “lagging” areas quite independently of whether these services can be used, afforded or are even locally necessary (Bank Kamman & Meyer 2006).

Thus, whether the notion of the “second economy” is merely metaphorical or not is not the point. The issue is whether it is a *helpful* metaphor; whether the way in which it orients analysis and policy is useful or not. This is the challenge we seek to address in this paper. To what extent does the “two economies” metaphor help us get a grip on the complex realities facing those who seem to have been

unable to benefit in post-transition South Africa? Does it orient attention in a useful direction, and does it allow us to ask the right questions? And, if it is not a useful or appropriate way of thinking about the structural factors that keep poor people poor, what is? Interestingly enough, even critics of the “two economies” discourse have not gone very far in trying to develop an alternative account in very much detail; though they have argued, like Nzimande and Frye, that poverty and unemployment may be a structural byproduct of the normal operations of the mainstream economy, or that first economy growth may exacerbate inequality (Gelb 2006) their attention too has mostly been focussed *on this mainstream*. It seems, in fact, as if exclusion is assumed to be self-explanatory: as if not much of interest or worth knowing happens in that excluded disconnected, shadow-world. For all the currency of second economy talk, the paradoxical fact is that in the national debates about poverty and “underdevelopment” not much attention has been directed to exploring in detail the livelihoods of the marginalised poor themselves, the precise nature of their links with the mainstream economy, and what this means for their social and economic (dis)empowerment.

In fact, one of the interesting difficulties in engaging with “second economy” discourse is that it is not always very clear exactly what the term actually denotes. As Devey Skinner and Valodia have pointed out (Devey, Skinner & Valodia 2006:2) it is not simply another name for the informal economy, because it clearly also includes the involuntarily and marginalised unemployed and some of those those who are not economically active. But what *is* it then? In some ways, the term seems to have a somewhat racialised logic — not merely because in South Africa it goes without saying that almost everyone “in” the “second economy” is black; but also because (like the notion of the “traditional sector” in previous discourses about “developing” economies) it is a way of naming those areas or formations of economic and social life which are understood to be different from, or other than, the “modern” (i.e. Western-oriented and globally integrated) parts.<sup>1</sup> Other than that, it seems most of the time merely to be a residual term: the “second economy” is defined *negatively* as consisting simply of those phenomena and activities which are not in the first economy. This means that “second economy” discourse can have a distinctly circular aspect: on the one hand, it is used in causal explanations (poverty and marginalisation are the result of being “stuck in the second economy”); but at the same time any business or activity which does well and which has transcended survivalism — a better-off *spaza* (informal shop) owner, for instance, or a successful farmer in the former homelands — would be almost by definition assumed no longer to be “trapped” in the second economy, and to have succeeded in becoming part of the “first”.

This circularity brings a danger that the distinction has simply become tautologous: the notion of “second economy” becomes reified as a kind of self-perpetuating, self-explanatory concept. As Henry Bernstein pointed out in an earlier and parallel discussion about the limits of functionalist and idealist

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<sup>1</sup> As such, the notion of the ‘second economy’ has much in common with the way in which the notion of the ‘shadow’ economy works in Western discourse about ‘Africa’ (Ferguson 2006).

approaches to economic analysis, it is necessary to discuss markets as they actually function, and not simply in terms of their deviation from a theoretical abstraction (Bernstein 1996). A more productive approach might be to look carefully at the *actual* relationships and connections by which particular people and their activities are linked into the broader networks, processes and formations that together constitute “the mainstream economy”.

### **3 Conceptualising structural and chronic poverty in South Africa**

It is to this challenge that the present paper responds. In the following pages, we consider some in-depth case studies drawn from a period of research in two key sites of impoverishment and economic marginalisation in South Africa (du Toit & Neves 2006). Our analysis is not merely meant to disprove or to show up the weaknesses in the “second economy argument, but to suggest some alternative ways in which economic marginality and structural disadvantage can be conceptualised.

PLAAS’s research into the social dynamics of economic marginalisation is part of a broader concern with the political economy of chronic poverty and responses to it, and forms the subject matter of its partnership with the Chronic Poverty Research Centre (CPRC), an international network of poverty researchers centred in the UK. As one of us has pointed out elsewhere, understanding chronic poverty requires a careful analysis of *structural* poverty. This in turn cannot simply be reduced to the quantitative analysis of asset endowments, but should also involve a theorised exploration of the way in which livelihoods are shaped and mediated by the broader political and social contexts within which they are pursued, and of the key role played by social process and social relations (Du Toit 2005a, 2005b)

These concerns have been explored, *inter alia*, via two linked research projects exploring the livelihoods of some of South Africa’s marginalised poor. The first was an in-depth quantitative livelihood survey conducted in 2002, and covering about 1600 households in the export fruit growing town of Ceres, in Mount Frere district in the Eastern Cape, and in Cape Town’s African suburbs (du Toit 2005a, 2005b; De Swardt *et al* 2005). This was followed in 2005-2006 by an in-depth qualitative investigation of a smaller sample of 48 households selected from the first and fifth income quintiles of the 2002 survey. This study, conducted on behalf of the South African National Treasury, focused on the structured dynamics of vulnerability and social protection in Khayelitsha Sites B and C on the outskirts of Greater Cape Town and in villages around Mount Frere. Although these sites are geographically distinct, they represent two important nodes in the complex pathways built up by labour migrants between the Eastern and the Western Cape; research on both the Cape Town and the Eastern Cape ‘ends’ of these pathways allowed a detailed glimpse of rural-urban connections and dynamics in the context of post-Apartheid migrant networks. In-depth interviews were held with “household heads” and primary caregivers in each of these households. These interviews focused on exploring the wide range of often quite marginal economic activities on which people depended, as well as the key

ways in which they were sustained by wider social networks. From these households ten were selected for a second, more in-depth case study investigation round that looked in more detail at key household members' life histories, and that mapped broader social networks in more detail. In this round, research "snowballed" out from the case study households to include interviews not only with primary household members but also with the people in other households upon whom they depended or who were dependent upon them. Research also focused on building up a clearer understanding of the "local political economies" within which individuals and households made their choices and constituted their livelihoods (for a more detailed discussion of the project and its findings see du Toit & Neves 2006).

## **4 Adverse incorporation in the Eastern Cape**

### **4.1 Poverty and economic integration in South Africa's "remote centre"**

We begin our analysis in the bleak hillsides around the town of Mount Frere in what these days is known as the "former Transkei". The dry, un-irrigated grassland terrain and the stray livestock grazing perilously on the road verges make a clear contrast with the green fields, planted windbreaks, erect fences and scattered farmhouses on the KwaZulu-Natal side of the provincial border only a hundred or so kilometers away. Even the tarmac of the national road becomes frayed at the edges and punctuated by pot holes here and there? A little more than midway between Mthatha and Kokstad, on the busy arterial route of the N2, is the town of Mount Frere. The town is a local commercial hub in the district – although the district municipality has its head quarters in nearby Mount Ayliff.

Research was conducted in the scattered villages in the Umzimvubu and Thabankulu areas in the Alfred Nzo District Municipality around Mount Frere. The villages are accessed by bumpy dirt roads which snake through the largely treeless landscape, and often become impassable in the summer rains. The surrounding countryside everywhere bears the imprint of agriculture in decline: ranging from the overgrown terraces of abandoned ploughing fields ("*insimbi*"), the collapsed, rusting fences and the scrawny, listless livestock. The tell-tale green patches of cultivation that are visible are the garden plots that tightly encircle clusters of homesteads.

This pastoral landscape is at one and the same time a neglected hinterland and a crossroads shaped by tight connections with other places. Buses, minibuses and the battered pickup trucks known locally as *quqas* (beetles) carry a ceaseless stream of human traffic between the isolated villages, the local town of Mount Frere and more distant urban centres. The busy N2 bisects the town, and freight-hauling juggernauts and cars rumble endlessly through town. Everywhere present along the bustling main drag is the branding of corporate South Africa: Vodacom, Shoprite, Vicks, FNB, Cell C, Pep Stores, KFC, Castle Lager, Oxo, and Boxer. Stalls line both sides of the main road, sometimes two deep, selling consumer goods, clothes, food and public cellphone access. The cosmopolitan make-up of this informal retail fringe gives the lie to the notion of Mount Frere as a far-flung rural outpost unconnected to the globalising world:

business is conducted here by local people as well as Ghanaian, Senegalese, Zimbabwean, Chinese and Pakistani traders. Some of the latter — they mostly peddle cellphone chargers and sunglasses — say they first left their native villages in Pakistan only six months before. On Fridays, pension payout days and month-ends, town overflows with even more activity than usual, as the crowds spill out onto the streets. The passing traffic of lumbering trucks, sales reps in sedans, heavily laden minibus taxis and holiday makers in four-wheel drive vehicles are compelled to pick their way carefully through the throng.

None of this, of course, should be surprising. Even a cursory glance at South African history shows that “structural disconnection” is a poor way of understanding the real relationship between the “former homelands” and the mainstream economy. Nowhere is this more evident than in the rural Eastern Cape, a region which has been thoroughly shaped by centuries of forcible, differential and uneven *integration* and connection with *other* places and economies. We do not need more research to tell us this: several generations of anthropologists, historians and sociologists have traced, in detail, the complex ways in which colonial and Apartheid policy worked to disrupt the agrarian economy of Xhosa society; how this helped make workers available to labour in the mines and factories of Johannesburg, East London and Cape Town; how policy aimed to subjugate and co-opt local elites and structures of traditional authority to serve the needs of settler society; how redundant workers were dumped back into the rural economy when the decline of mining and manufacturing meant that “unskilled” and manual workers were no longer needed (Bundy 1988; Bank 2002; Bank & Minkley, 2005; Southall, 1994).

This history has created a very particular kind of landscape: one characterised by a profound lack of local economic activity and investment, and pervasive, historically sedimented relationships of dependency on other regions and economies. Here the persistence of poverty is driven by four interlocking dynamics:

- (1) Firstly, rural poverty has been exacerbated by decades of under-investment in local infrastructure and agriculture and an uneven but significant process of de-agrarianisation (Bryceson, 1996). Bank *et al* show how in the former homeland areas the slow collapse of agrarian production has led to a high degree of intra-regional migrancy: as the restrictions on “squatting” enforced by the apartheid and homeland regimes were lifted, large numbers of people abandoned the more remote villages and settled around secondary towns (Bank Kamman & Meyer 2006).
- (2) Secondly, the mining and manufacturing industries of the Highveld that sustained generations of unaccompanied male circular migration (and that enabled **some** investment in cattle and local agrarian capacity) no longer require vast numbers of unskilled, cheap black labourers: surveys seem to indicate that remittances are dwindling, that migration to urban centres is

becoming less certain and more risky (Binns & Nel, 2003; Bank, Kamman & Meyer 2006).

Thirdly, de-agrarianisation, local urbanisation and the repatriation of surplus workers have not led to the greater development of local service delivery. Local services and industry are strikingly thin and limited to a few, often overtraded sectors predominantly in retail and low end services. A process of internal migration and 'rural densification' as people moved from more remote to more strategically and better serviced locations has led to the development of dense settlements of rural poor around smaller Eastern Cape Towns such as Peddie, Cala and Butterworth. However, with jobs being scarce, with migrants neither finding jobs nor being able to migrate onwards to the larger urban centres, these small towns have become local poverty traps with residents limited to circular migration between small towns and rural social networks (Bank, Kamman & Meyer 2006).

Fourthly, the growing HIV/AIDS pandemic is felt amongst the working-age population of the province, leaving children and elders to cope with the demands of survival and the escalating care burden of looking after orphans and dying relatives (Marks, 2002). This raising the spectre of 'involution', where "the poor reinvent communitarian traditions of mutual dependence and risk-spreading in an effort to protect themselves from the effects of deepening poverty" and become locked into mounting poverty (Bank & Minkley, 2005).

Clearly — and most proponents of the second economy thesis would presumably not deny this — the society and economy of the rural Eastern Cape cannot be characterised simply in terms of inclusion and disconnection. Rather, we submit that the rural Eastern Cape should be seen as a case of what has elsewhere been called "adverse" or dependent incorporation (Murray 2001, Bracking 2003, du Toit 2004). The research and analytical challenge to develop a better understanding of the *nature* of this adverse incorporation, and to look at the exact ways in which connections to the urban metropolises shape livelihoods either positively or negatively.

#### **4.2 De-agrarianisation and social change**

In-depth interviews with a small number of selected households cannot offer up a detailed or comprehensive analysis of an entire region and all of its overarching social and economic dynamics. Case studies however, can cast light on some of the key livelihoods processes at work, highlight interconnections and links between apparently disparate processes, and suggest the ways in which these processes are shaped by modes of incorporation into the broader South African and global economy. An exploration of what is revealed by an investigation of dynamics at the level of individual histories, along with inter- and intra-household dynamics, can illustrate much about how these elements are shaped by circuits of interconnection to distant systems, places, markets, economies.

One important dynamic illuminated by this work is the complex role played by agriculture and the intricate social and economic dynamics of de-agrarianization.

The limited role of agriculture is a clear contributing factor to poverty in the Mount Frere region. In the 2002 PLAAS CPRC survey, less than 2 percent of households were able to subsist on their own maize crop for 10 months in the year; while 87% of households were reliant on store-bought maize meal all year round. Clearly the historical neglect of black and smallholder farming by the Apartheid government, and decades of systematic under-investment in infrastructure and support services play an important role here (DBSA 2005). Agriculture and various land-based activities continued to play an important role in household wellbeing, yet households were variable in the extent to which they could participate and benefit from it. Significant investment in land-based activities was usually the prerogative of wealthier households that had money to pay for inputs such as ploughing or the acquisition of livestock: in the 2002 PLAAS survey, for example, households that reported harvesting six to ten 50kg bags of maize in the previous year, also reported an income of R200 per adult-equivalent in the household, whereas households that did not cultivate mealies reported an income of R153 per adult equivalent. Households that cultivated maize contained 50 percent more adults holding down permanent jobs than those that did not. The same pattern emerged in the 2005 qualitative investigation: in the Eastern Cape qualitative study, six out of the twenty-four households visited showed significant investment and benefit from agricultural activity – and each one of these six households were significantly better off, pluri-active homesteads, where agricultural activity was supplemented and enabled by income or savings from formal sources.

So, in one sense, households clearly do profit from ‘connection’ into the urban and formal economy, in that those who have access to sources of formal income are better able to participate in agriculture. But this is only part of the story. More to the point, this pattern cannot be taken as evidence that the region’s ills stems from disconnection, and that closer integration into the market economy is the answer. Rather this pattern relates to an underlying social and economic process that has shaped the possibilities open to *both* households that had strong connections into the urban economy *and* those that did not. *Both* the ability of some households to participate effectively in agriculture, *and* the difficulties faced by those that can not, are the outcome of a broader and more complex market-related restructuring of the local agrarian economy.

One key dynamic here is related to the deepening of monetisation. Within the focal research area, there were strong indications that the role of agriculture has declined in the district. With many of the large cultivated fields (“*intsimi*”) falling into disuse, householder agriculture had retreated to the garden plots adjacent to homesteads. Evidence from elsewhere in the former Transkei suggests an “intensification” in the cultivation of the smaller homestead garden plots, in an effort to maintain output in the face of declining resources (Andrews and Fox 2004). In the 2005-6 research, informants readily related the abandonment of the cultivated fields to the fact that ploughing increasingly relies on mechanical rather than animal traction. Poorer householders have neither the money required to hire tractors to plough, nor do they have access to animal traction. This is possibly in part to changes in the nature of cattle ownership. Some

research suggests that while overall numbers of livestock in the rural Eastern Cape have remained more or less constant, cattle ownership has become highly concentrated (Heron, 1991). Indeed, PLAAS's 2002 survey suggested a very unequal distribution of cattle: while 80 percent of households owned less than 5 head of cattle; about half owned none, while five percent owned 10 head of cattle or more (du Toit & Neves 2006). Moreover, cattle ownership is frequently correlated with non-rural income sources, and tends to be concentrated in the hands of local elites such as traditional leaders, bureaucrats and businessmen (Cousins, 1996). So, while there is a sense in which the ability to participate in agriculture is a function of being better connected than households excluded from access to formal employment or regular income, it does not follow that 'tighter integration' of this region into the market economy is what is required. Rather, both the ability (of some) and the inability (of many) to participate effectively in agriculture is part of a broader dynamic of deepening local inequality.

De-agrarianisation, moreover, is not merely a direct outcome of the local economics of ploughing. In addition, it seems also to be linked to the complex re-articulation of the social relations that sustained a particular kind of local agriculture in the past. For one thing, the abandonment of the planting fields unchains a further local social dynamic: with fewer people cultivating there is little incentive for the entire village to keep stray animals out of the poorly fenced fields. With the introduction of schooling and changing intra-household relations of power, children are less available to control livestock. Consequently, many respondents reported crop losses due to stray livestock, or expressed a reluctance to cultivate in anticipation of these large losses. In addition, interviewees also reported a process that might be called "bovine deskilling": even where people have livestock, oxen are no longer being trained to the plough, further increasing people's dependency on mechanical traction. The decline of agriculture in this region is further compounded by the dissipation of whatever homeland-era agricultural extension services (such as cattle dipping) existed in the past.

Deepening rural inequality, furthermore, has its own consequences for the social arrangements that sustained local agriculture. Sharper economic differentiation between households undermines the cooperative work arrangements, such as the "*ilima*" (work parties constituted for weeding fields) and the collective ploughing companies that traditionally were a mainstay of agricultural labour. Better resourced households are inclined to withdraw from these groupings when they receive fewer benefits than they contribute; hence poorer households are further undermined in their ability to engage in agrarian production (Spiegel & Mehlwana 1997).

De-agrarianisation is therefore not merely a process that can be understood in terms of the economics of cattle husbandry, agrarian cultivation and communal labour. It is also connected to the intricate links people make "between food production, rural life and social identity" (Bank & Minkley 2005). Successful agrarian production and the co-operative work arrangements embodied in the *ilima* depended on a certain articulation of social and gender relations within and

between households, and on an underlying set of social and moral precepts: a conservative, patriarchal rural cultural ideology that enforced a collective commitment to an agrarian, Xhosa way of being. While these social forms can still flourish in some maize growing districts in the former Transkei — areas characterised, interestingly, not merely by a location in the high rainfall coastal belt, but also by *remoteness*, by the *lack of* disruption by markets (McAllister 2001) — changes in large parts of the Eastern Cape have served to undermine the social relations and gendered power relations that underpinned the extraction of labour from women and children (Ngwane 2003, Bank 2005). This interplay between social identity and agrarian production is even evident in the changing nature of the household formation. In the past, migrant labour in South Africa's mining and manufacturing centres enabled young men to pay dowry ("*lobola*") and thereby "build" the homesteads (in both social and economic terms). The resultant normative cycle of household development (Spiegel 1996) rendered agricultural work the preserve of either middle aged men who had retired from urban labour, or women. There is some anecdotal evidence to suggest that local agrarian labour continues to be regarded as an inappropriate vocation for a young man.

Finally, at this point, it is useful to think of the place of agriculture in relation to larger debates concerning the dynamics of economic marginalisation. The smallholder agriculture described above does not fit neatly into either the "second economy" or the "first" as it is traditionally conceptualised. On the one hand, agrarian production around Mount Frere is far from an autochthonous, traditionalist activity, untouched by modernity and engaged in by those who are not part of the first economy: on the contrary, it is crucially dependent on access to cash provided by formal employment or (at the very least) cash transfers. Yet neither does agriculture, where it is productive, succeed only because it is thoroughly integrated and oriented towards the market economy. Even in the wealthiest and most agriculturally productive households, farming played a mostly economically supplementary role: it makes sense, and succeeds, as part of the complex mutually interlocking portfolio of livelihood activities and practices of reciprocal exchange that characterise pluri-active rural livelihoods in the Eastern Cape more generally.

These reflections highlight the complex place of agriculture in local livelihood systems – and significantly complicate the notion that Mount Frere's agrarian economy suffers simply from its disconnection with the economic mainstream. Rather, it suggests that the path of integration with the broader South African economy have created a dynamic where some – those who have managed to hold on to scarce formal sector employment, or to eke out remittances and savings – have been able to benefit from agricultural involvement, while monetisation, deepening inequality and the rearticulation of the social arrangements that enabled land-based production in the past have undermined agricultural production for others.

#### **4.3 Industrial decline and retail penetration**

If a relative dearth of agricultural activity is a feature of the Mount Frere district, a further striking feature of the region is the absence of a thriving secondary economic sector (particularly manufacturing or industry). Not only has South African mining and manufacturing employment declined, the Eastern Cape's textile and garment industries created as part of Apartheid's policies of "deconcentration" have collapsed (Nel & Temple 1992; Bank and Minkley, 2005). By 1998 Butterworth alone had lost 80 percent of its industrial jobs, each supporting scores of rural dependents (Bank and Minkley, 2005). The overarching forces of economic change, market liberalisation and globalization therefore confer the overarching context and represent some of the factors driving the decline of both agrarian and industrial activity in this region, and much of sub-Saharan African generally.

There are moreover linkages and synergies between these two sectors: for instance, the Asian development literature is replete with accounts of rural industry. Livelihood diversification (through non-farm employment, petty commerce and urban migration) now contributes to roughly half of all rural incomes in low income countries (Ellis & Allison, 2004). This diversification however serves to reproduce and reinforce the social differentiation described above. While better off households usually diversify into non-farm economic activities (such as business, transport services, construction), the rural poor, with fewer opportunities, engage in casual work, much of it in agriculture and subject to the same shocks and seasonality of smallholder agrarian production (Ellis 2006).

The general paucity of the secondary economic sector in this region is arguably not related to the lack of linkages with the formal economy, but to its very nature and ubiquity. Systematically deprived of development for decades, the sudden retail deregulation of the former Transkei in the 1990s saw the local retail economy rapidly dominated by large national supermarket chains that swiftly moved into the small rural service centres such as Mount Frere. While these supermarkets have succeeded in supplying local areas with cheaper food, they have also in other ways been part of a far-reaching transfiguration of the rural economy. Crucially, they have undermined the economic base of the network of rural trading stores that in many ways constituted local hubs in the region's agrarian economy. Although these stores enjoyed a statutory protection from competition that saw their white traders, and later the homeland elite, benefiting from a captive market, they were also important centres of local exchange. Rural trading stores were where migrant labours took "the join" (labour recruitment); stores milled local farmers' maize, bought and sold local agricultural surpluses, and were hubs of postal and telephonic communication. The local credit economy on which these stores depended has made way for a cash economy in which supermarkets are central. These stores are in part what give Mount Frere its centrality in the district: its limited importance as a centre of local government is of far less significance than the five large wholesalers and supermarkets it is home to. Three national supermarket chains (Shoprite, Spar and Boxer, a subsidiary of the Pick n Pay group) have shop frontage within a few hundred metres of the town's main road.

Although these supermarket chains supply cheaper food, their supply lines invariably bypass local production. Milk, meat and other perishables for sale in Mount Frere supermarkets are sourced not from local producers, but rather the more distant commodity markets of Kokstad, Durban and East London. Of the five largest retailers in Mount Frere, only a single supermarket is in any sense locally owned (by a long-resident white family). Only they are willing (and able to) purchase products locally. The store's enterprising owner turns his local expertise and decentralised management into a competitive advantage; surplus or bruised fruit and vegetables are peddled directly on the pavement. Thus this store — a franchise of a major global supermarket chain, with 14 500 stores in 33 countries — competes head-to-head with the informal vendors on the dusty sidewalks of Mount Frere.

These patterns are of course continuous with the economic circuits long established through the dependent incorporation of the Eastern Cape as a supplier of migrant labour. Perhaps nothing speaks as eloquently of the way in which migrant labour has inserted the region into the national economy than the material geography and institutional underpinnings of the town's cash economy. In less than a kilometre of main street there are three automated teller machines (ATMs) — and the way they are positioned says much about cash flows in the local economy. Each one is positioned in close proximity to one of the three major supermarkets: the Standard Bank ATM is in a new facebrick edifice across the road from the local Spar, Mount Frere's oldest supermarket. The ABSA ATM is grafted onto the side of a steel shipping container, on the pavement alongside the local Shoprite. One of the FNB machines illustrates the symbiosis between retail banking and food retail even more dramatically. A compact device no larger than a modest television set it sits *within* the lobby of the local Boxer supermarket — and contains no money. Instead, the machine dispenses printed slips which can be redeemed for cash or goods from the store cashiers, thereby eliminating the need for superfluous duplication of the cash infrastructure. A similar arrangement exists in respect of the pension pay-out machine situated inside the local Spar: this machine bears a handwritten sign indicating that pensions can be drawn there — on condition that drawees spend 10% of their payout, immediately, in the shop.

Follow the money, as the saying goes: cash comes into Mount Frere in armoured transit vans; is deposited into the ATMs; is drawn by local people — often against funds deposited there by distant relatives or drawn down as social grants; it typically moves five or ten metres across the street or lobby of a store, and then leaves again: repatriated as profits to South Africa's retail giants. Mount Frere is neither a local economic hub nor a neglected, economically irrelevant hinterland: rather, it is a small node in a larger network. Although the links into the national and mainstream economy appear direct and strong, what is lacking is a network of *internal* interconnections and meaningful local multipliers to constitute a functioning *local* economy.

## 5 The political economy of race and space in greater Cape Town

While poverty in Mount Frere is shaped by the key facts of remoteness, underdevelopment, de-agrarianization and adverse incorporation, poverty in the African township of Khayelitsha seems to be patterned most above all by the political economy of racialised urban space. Established in the mid 1980s in the context of fierce resistance to removals from other informal settlements (Cook, 1985), Khayelitsha is inhabited mostly by recent migrants into Cape Town. From this perspective perhaps the most salient fact about Khayelitsha is that while it is populated mostly by those who have left the rural Eastern Cape to seek jobs in Cape Town, they remain in a very large measure economically, spatially and racially marginalised from the city.

In the first place, the urban economy has not succeeded in creating many formal employment opportunities for Cape Town's impoverished, landless, and under-educated African population. Since the early 1980s, increasing capital intensity in the economy as a whole has driven a decline in manufacturing employment, with 200 000 jobs being lost between 1980 and 1996 nationally. While Cape Town initially bucked this trend, the period after 1996 saw significant manufacturing job losses driven mostly by the decline in the clothing industry (see table 3). In addition there has been a decline in the numbers of people employed in private households (South African Cities Network 2004: 52). On the whole then, employment opportunities for unskilled workers have been diminishing.

This is unlikely to be addressed in the future by the growth path taken by the city: like many other South African cities Cape Town has emphasised an outward looking, globally integrated growth path, emphasising financial services, tourism and export-led manufacture (SACN 2004: 66 ff). It is important to note that this phenomenon goes much deeper than the "structural disconnection" identified by President Mbeki, whose formulations imply that there would be jobs for the unemployed were they to be more skilled: as Banerjee *et al* argue, employment in South Africa is presently very near equilibrium (Banerjee *et al* 2006); though there is a "skills gap" the shortfall in skilled workers is much smaller than the number of unemployed.

Even where "unskilled" jobs do become available, a range of cultural, racial and linguistic factors continue to marginalise Khayelitsha's residents. *Half* of the urban respondents to the 2002 survey reported that they were unable to speak either Afrikaans or English, a figure that was relatively independent of whether they were recent immigrants or not; even among those who had had between and 11 and 12 years of schooling, 28 percent reported themselves unable to speak Afrikaans or English. This is a substantial disadvantage, given that Cape Town is the only South African metropolitan area with a majority non-African population (Cousins, Parnell & Skuse 2005). While unemployment in Cape Town is lower than in many other South African cities, estimates still put unemployment (in the expanded definition) at between 25 percent and 30 percent of the labour force (SACN 2004: 51). Within this general statistic, African migrants are

disproportionately represented. While they constitute the single largest group of migrants into Cape Town (constituting 54 percent of the cities immigrant population) they are also the most marginalized grouping; while the migratory flow of work seekers from the Eastern Cape dwarfs all others into Cape Town, migrants from the Eastern Cape are also among the most likely to face unemployment, and on average report lower incomes than other migrants - see Table 3 below (Cousins, Parnell & Skuse 2005). Naidoo, Leibbrandt and Dorrington report that 29 percent of recent migrants from the Eastern Cape to Cape town in the five years before the 1996 Census were unemployed at the time of that census; this figure worsened to 38 percent by the 2002 survey (Naidoo, Leibbrandt and Dorrington 2007). The 2002 CPRC survey did not ask questions that allow an estimation of unemployment according to either the broad or narrow definitions, but it did record that in the 625 households that it visited in Cape Town's African suburbs, some 63 percent of the 1619 adults of non-pensionable age were listed as having 'no paid work', while informants reported the most urgent need of 51 percent of those adults as being employment.

**Table 1: Percentage of adults in Cape Town sample reportedly unable to speak either Afrikaans or English (n= 1660) (Source: PLAAS/CPRC household livelihoods survey)**

Adults	%
Total sample	49.7
Adult male	52.3
Adult Female	47.8
At address for less than a year	48.2
At address for more than 5 years	50.4
With no schooling	90.0
With up to 7 years of schooling	67.5
With 11-12 years of schooling	28.7

**Table 2: Change in percentage sectoral contribution to GGP in Cape Town - 1994 to 2005 (from Cousins, Parnell & Skuse 2005)**

Sector	Change in Contribution
Agriculture	5.86
Transport	3.12
Business services	3.07
Wholesale & retail trade	2.48
Construction	-0.02
Community social services	-0.04
Electricity & water	-0.12
Mining	-0.46
Government	-3.83
Manufacturing	-4.01

**Table 3: Cape Town Employment Status: Age 15-64: Totals by Race Group and Gender: 2004 (From Cousins Parnell & Skuse 2005)**

	Black Male	Black Female	Coloured Male	Coloured Female	White Male	White Female
Employed	101,438	75,329	215,091	211,823	142,407	122,179
Unemployed	78,000	91,607	51,445	46,122	4,400	2,906
Not economically active	119,434	170,049	137,493	239,888	43,176	75,979

The social disadvantage many Eastern Cape migrants face when competing in Cape Town’s labour markets is exacerbated by the politics of race and space. In an important sense, Khayelitsha is in, but not of Cape Town. It is situated more than 30 kilometres from the city centre and remote from the shopping and manufacturing sectors where most of the jobs are to be found. Travel to and from these centres is expensive, time consuming and unsafe. In many ways, then, Khayelitsha is something of an economic, racial and cultural enclave. Many people travel over a thousand kilometres from the Eastern Cape to come to the urban areas — and indeed shuttle back and forth between their rural homesteads and their dwellings in Sites B, C or Kuyasa - but rarely venture the last 15 or 30 kilometres into the economic hub. Economically, culturally and socially, Khayelitsha is therefore a paradoxical place. Thoroughly metropolitan and part of the urban economy, it is also in some ways the Eastern Cape’s westernmost village. Although perched right on the urban perimeter of Greater Cape town, its denizens often speak as if Encobo is closer than Claremont, and visit Qumbu more often than they do Kraaifontein. Created as an Apartheid dormitory township it has acquired a community character in its own right; while characterised by high levels of poverty and unemployment, it is also humming with informal activity.

Does Khayelitsha, then, constitute a “second economy” disconnected from the urban economy of the rest of the city? The notion does not seem appropriate. Although we have said that Khayelitsha is “in” but not “of” Greater Cape Town, *both* sides of that paradox — *both* its connections with urban economic life *and* its spatial separation (originally conceived through Apartheid spatial planning, now perpetuated through the calculus of land values and practices of urban planning) are parts of the overarching political logic of the township’s racially differentiated spatial and social incorporation into Cape Town. Khayelitsha’s residents are (largely) redundant as unskilled workers, yet they are valued as consumers; they are isolated from the cities economic epicentre, yet are decisively present as citizens and voters; they are constructed through racialised

discourse of crime and fear as a potential threat to Cape Town's lucrative tourist industry, yet they are themselves objects of tourism. (Khayelitsha, like many other South African ghettos, now boasts carefully managed township tours. There is even a tourist panopticon: a lookout point on a hillock at the edge of the township, through which visitors can peer out at the matchbox houses and ramshackle dwellings that stretch out below).

Grunebaum-Ralph and Henry have powerfully described the continuities between the city's Apartheid past and the ways in which its present-day racial geography continues to be re-affirmed and re-asserted through the shoring up of economic privilege. The passage deserves to be quoted at length:

“Cape Town is a city that continues to be shredded by the complexities of division and violence. The violence of the city, of its extremes of wealth and poverty and the irreconcilable realities that exist inside of these extremes, mark everyone each day in ways that are not always clear, conscious or visible. It feels like a city that is ready to burst with the violent force of the irrepressible realness of its history. Mostly everything remains color-coded according to previous Apartheid “race” categories. This is visible in every sphere of society from who works in restaurant kitchens and who owns them; who cleans the roads and sidewalks and who are shop owners, whose children are cared for by nannies and whose children have to fend for themselves. The spatial boundaries of Cape Town remain distinct, obliterating even the memory of how these spaces were manipulated into existence through Apartheid laws of forced removals and group areas.... In the townships of the Cape Flats, the highly differentiated and segregationist topography that is inscribed by roads, highways, footpaths, intersections, railway lines, cooling towers, industrial zones and open fields become naturalized as the visible boundaries and invisible thresholds marking structural poverty and the internalization of hopelessness. In this way the structural relationship between township demography, socio-economic deprivation, and the stark extremes of socio-economic realities between the city center and the marginalized townships are delinked. Colonial and Apartheid social, spatial and economic engineering that created “race” categories and defined human existence and citizenship along scales of legal, illegal, native, migrant, citizen, and subject have been dismantled legally. Yet each day, the public transport system runs a service schedule whose function is solely to transport hundreds of thousands of workers from township economies of servitude, “underdevelopment”, and abjection, to the economic center to eke out a subsistence living in ways that rehearse daily the enforced journeys of land dispossession, displacement, destruction of families, dispersion of communities, and resettlement.” (Grunebaum-Ralph and Henry, 2003).

For Grunebaum-Ralph and Henry, the distinction that matters is not between those in the townships that are (“still”) disconnected and excluded from the “first” economy and those (the entrepreneurs, the skilled, those with access to

microcredit) that have access to its opportunities. Rather it exists in the overarching racialised and spatially enforced political geography of the city as a whole: a geography that assigns *both* the elite *and* the impoverished, *both* the labouring poor *and* the unwanted and unemployed, to their places in the city's spatial and economic order. Their rendition is arguably a little overstated — as we shall argue below, there is a need for a more differentiated vision of the opportunities and the limits on agency within the city's economic margin — but their reminder of the structural violence of Apartheid, and the perpetuation of that structural violence by the routines of “normal” life in post-apartheid South Africa provides a powerful counter to the rather pallid notion that all that keeps poor people poor is that they somehow have not yet found a way of being part of this new order in the first place.

Together, these factors — accumulated social and educational disadvantage, the perpetuation of spatial and racial segregation, an internecine local politics of linguistic and cultural exclusion, and estrangement from many of the circuits of economic prosperity and accumulation — have important consequences for what in development-speak would be called the “vulnerability context” for Khayelitsha's residents.

(1) The first key factor is the simultaneous centrality and fragility of paid employment in or on the margins of the formal sector. In the 2002 survey, more than half of the upper income decile of the households in Cape Town's African suburbs contained at least one adult with either access to a pension or access to permanent, stable employment. But the data also highlights the insecurity of employment in the usually unskilled sectors of the economy: 31 percent of 622 urban households reported in 2002 that the breadwinner has suffered the loss of work in the previous year, and 30 percent reported the loss of a permanent job in the previous five years. Even formal employment is tenuous.

(2) Secondly, as with the urban poor elsewhere in the world, urbanisation and integration into the urban economy is a double edged sword. On the one hand, closeness to the urban sector assures greater chances of employment and a better income, while in Cape Town; unemployment has been significantly lower than the national rate outside cities (Boraine et al 2006:270). But at the same time, the local economy is far more thoroughly monetised, and there is no agrarian economy to potentially cushion monetary shortfalls. This is an important point to be borne in mind by those who dismiss the role of so-called “subsistence” agriculture in the Eastern Cape. While in the 2002 survey households appeared monetarily much better off than in Mount Frere (mean expenditure per adult in the urban sample was R 250, as opposed to R 160 in the rural areas), the proportion of households that reported spending more than 40 percent of household expenditure on food was almost the same (du Toit & Neves 2006). While cash is more plentiful, the effects of cash shortfalls are more dire, and while closer integration into the urban economy brings increased opportunities, it

also means that urban livelihoods are more sensitive to fluctuations and changes in that economy.<sup>2</sup>

(3) This increased vulnerability to fluctuations in the formal economy is made even more significant by the limited scope for informal economic activity that can cushion these shocks and supplement formal sector income. So although qualitative research was able to reveal much broader participation in informal economic activity than the 2002 survey suggested (see below), these activities have to be undertaken under very difficult circumstances. The distance to the town centres mean that residents are far, not only from formal jobs, but for markets for informal economic activities. Unemployed African migrants in Khayelitsha trying to make a living from informal economic activities are essentially pinned down in the poorest parts of Cape Town.

(4) As in the Eastern Cape, another problem is the fact that some of the linkages that do exist between the township economy and the formal economy are of a problematic kind. A key issue here is the central and dominating role of large supermarket chains, which necessarily crowd out informal retail activity. Again, it is not clear whether, in the context of economic vulnerability and fragile employment, the economic benefits of cheaper food outweigh the lost opportunities for self employment. It is however clear that one of the key asymmetries facing those involved in informal sector activity is that while households in poorer communities are denied access to markets in the wealthy, white parts of town, the lead corporations of the so-called “first economy” have untrammelled access to township markets. This must significantly reduce the potential for local multipliers.

(5) Another important factor limiting and constraining informal economic activity flows from the character of social relations in Khayelitsha. For a variety of reasons – extreme poverty and deprivation, a population of relatively recent and transient migrants, and the historical lack of effective policing on the Cape Flats, crime and violence – and the fear of crime and violence – are a central fact of life in Khayelitsha. Some current research indicates that fear of crime and criminality may play an important role inhibiting plans for informal economic activity (Cichello 2005). In more than one case, informants corroborated this, indicating that crime, violence and the fear of crime and violence was an obstacle to their informal economic activities.

## **6 Self-employment on the margins**

In the previous pages we have sketched some key issues that are often left aside in mainstream analyses of poverty — analyses which concentrate on the supposed characteristics of poor “households” and individuals without considering the local contexts that shape the ways in which they can use their assets and that mediate the impacts of shocks and change (Murray 2001). We

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<sup>2</sup> This parallels the experience of the urban poor elsewhere in the world: in Latin America, for instance the elasticity of poverty with respect to growth is significantly higher in the urban than in the rural areas (see e.g. Faye 2005).

have argued that at least in the two contexts we have sketched, many of the obstacles in the way of poor people stem not merely from disconnection, but from the complex nature of their relationship with the “mainstream” economy. Far from being un-integrated, they are often thoroughly integrated, but in ways that undermine their ability to constitute themselves powerfully as economic actors and social agents. What does this hostile and difficult terrain mean for the ways in which people *do* seek to make a livelihood? In the following section we consider some of the characteristics of “informal” or “self-employed” activity in both the rural Eastern Cape and Khayelitsha.

By way of introduction, three key observations can be made about what in-depth research revealed about self-employment and informal economic activity. *Firstly*, informal economic activity and self-employment seemed to be somewhat more prevalent than suggested in the 2002 study. A walk through any of the densely populated shack settlements in the older, longest-settled sections of Khayelitsha Site C gives the visitor the impression that there is hardly a household that is *not* involved in some kind of low-level and informal economic activity, whether it is selling packets of chips or cold drinks, making and selling *umqhomboti* (traditional beer), cooked meat of various descriptions, offering barbering or hairdressing services, or advertising an informal crèche. Even households that do not advertise a service through a painted or pencilled sign displayed in a window or pinned on a fence post will earn some money looking at neighbours’ children, renting out space in fridges or freezers, or offering other, more innovative services, such as the informal connection to live municipal power lines for residents unable or unwilling to pay for their electricity. While, in PLAAS’s 2002 survey, less than 5 percent of households reported that they spent time on non-agricultural “self employed” activity, in-depth interviews in 2005-2006 indicated that the majority of households (36 of the 49 households, counting those involved in informal agriculture) contained adults who were involved in informal economic activity of some kind – albeit sometimes of quite a marginal nature. The only households that seemed genuinely devoid of informal economic activity were those where either all labour capacity was soaked up by formal economic activity or where members had recently lost well-paying formal sector jobs and were throwing everything into the struggle for regaining employment.

This is related to the second observation, which is that such informal activity is often elusive and hard to pick up in survey interviews. It seems fairly clear that the difference between the 2002 survey and the 2005-2006 interviews cannot be explained by a sudden surge in informal economic activity: some of the of the households listed as devoid of informal sector activity in 2002 were shown in 2005 to have been relying on such activity at the time (du Toit & Neves 2006). Often the activities discovered by the 2005-2006 round of interviews surfaced only after some trust had been built up between informants and interviewers, or after some probing on the part of the interview team (for a discussion of the methodological aspects of this issue, see Adato, Lund & Mhlongo 2003).

Thirdly, these activities often seemed simultaneously vital to survival and perilously marginal and fragile. In several cases, informants appeared to rely

heavily for their very survival on economic activities that, even after careful probing, seemed to offer only vanishingly small economic rewards: selling a few cooked sheep's heads — which require hours of arduous, dirty and unpleasant work — for R 10 profit a head; selling, by the cupful, paraffin carried kilometres in the hot sun at a profit of a few cents a sale; selling individual pieces of chewing gum or single cigarettes or biscuits for 10 c each; helping run a crèche all day, every day, for a R 200 a month; being paid R10 or R15 for a day's work plastering a mud hut in the Eastern Cape. All these activities seemed barely sustainable or profitable, yet they seemed to be the household's only means of getting their hands on some cash.

This last is worth bearing in mind when considering the nature of much writing and research about SMMEs in South Africa. Indeed, some of the most important policy treatments of SMME sector suffer from a kind of disjuncture. On the one hand, they often acknowledge the diversity of the informal sector, and recognise that by far the greater share of self employment and informal sector activity is “survivalist” in nature (e.g. Rogerson 1996) . But having done this many studies then proceed to concentrate almost entirely on the tiny minority of medium to micro enterprises that are *not* survivalist, that have some potential of growing and employing people beside the operator him/herself (e.g. Chandra *et al* 2001, Berry *et al* 2002, Ligthelm 2005). Even studies that are explicitly concerned with “township businesses” such as spazas still concentrate on those that are large and formal enough to have significant credit needs and to be formally plugged into national supply networks (Ligthelm 2004). This is probably understandable: the intellectual frameworks that are suitable for understanding micro-enterprises have little traction on the realities facing those in the so-called survivalist sector

A good example of what happens when this kind of perspective is used to try to assess the nature of informal enterprise and self employment is provided by Gideon Maas and Mike Herrington, authors of the Global Entrepreneurship Monitor 2006 Report for South Africa (Maas & Herrington 2006). In findings accorded high prominence by South Africa's business press, the report unfavourably compares South Africa's levels of early stage entrepreneurial activities with international levels and argues that this is because South Africans do not have the “right mindset” to be entrepreneurs<sup>3</sup>. Noting that most of those involved in the “survivalist” sector are women, Maas & Herrington argue that one important “determinant” which “influences women entrepreneurs negatively” is “culture/tradition”, which predisposed women to “look after their families” and to choose “businesses” that were either flexible or undemanding enough to allow this. This, for them, is just not good enough: noting that these activities were characterised by the “lack of the use of new technologies” and that most of them were what they called “me too” businesses, they do not pause to consider the constraints and conditions that might enforce such characteristics, or how they might be adaptive to the realities faced by their protagonists. They observe only that it is doubtful whether these types of businesses can really “challenge and

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<sup>3</sup> ‘Lack of entrepreneurs spells trouble: iafrica Business News 14 February 2007  
<http://business.iafrica.com/entrepreneurs/628908.htm>

stimulate women to become better entrepreneurs and as such make a better contribution to the socio-economic development of the country” (Maas & Herrington, 2006, p. 37) The problem with this kind of analysis is that though it tells us a lot about the authors’ assumptions about how a township business *should* look, and about how informal employment activity diverges from this ideal type, they fail to consider the particular ways in which these activities might be adapted to the realities and challenges faced by their protagonists.

In this research project we did not attempt to assess the profitability or sustainability of any “informal businesses” or investigate in depth the micro-economics of informal economic activity. Such an investigation would require a detailed research project in its own right. At the same time, in-depth interviews produced many insights into the nature of the informal economic activities, their place in people’s livelihood strategies, and some of the constraints and difficulties that they faced. Here, we highlight three other crucial features, all of which have profound constraining implications on their ability to contribute to livelihoods.

(1) The first is the narrow range, the differential nature, and the concentration of benefit for informal economic activities (see Table 4 below). A very small number of households had been involved in some kind of craft production or manufacture, or were involved in a fairly lucrative business (a well established shebeen, a spaza on a main road, a small builders’ business, and two dressmakers). Two households, interestingly, obviously gained somewhat from being strategically involved in community work of some kind (this category includes a household that ran an independent Zionist church and an individual involved in “farming NGOs” by situating herself as a key gatekeeper for development and community outreach work). Most of the other activities relate either to small-scale retail and low value services.

**Table 4: types of informal economic activity reported**

Economic activity	Number of households
Reselling small items (sweets, cigarettes)	7
Making mud bricks, plastering huts	7
Preparing and selling food (smilies, walkaways)	4
Domestic work within community	4
Selling alcohol	4
Rural services (fixing fences, hoeing fields, herding cattle)	4
Childcare within community	3
Running a spaza	2
Dressmaking	2
Making reed mats	2
Traditional healer	2

Community work	2
Peddling in commercial centre	1
Reselling clothes	1
Transport services	1
Brewing beer	1
Running own building business	1
Grass harvesting	1
Collecting wood	1

The overtraded, overcrowded nature of the sectors populated by “survivalist” activities may be due to the relatively low costs of entry to these activities. Some of the more remunerative businesses reported by informants required the possession of significant levels of skill or some other strategic advantage: in both cases where informants were making traditional dresses, for instance, this activity required not only sewing skills and a sewing machine, but also relied on the ways in which the “stretched” households produced by migrancy allowed a kind of spatially distributed production system in which rural kin took orders and collected deposits for dresses produced in Cape Town; a successful shebeen depended on the infrastructure provided by a pickup truck paid out of formal sector wages and on the social networks built over twenty years of local residency; a small building business in the Eastern Cape was run from the local headman’s compound. For the rest, the activities listed do not require high levels of skill or very extensive capital outlay: as Cichello points out, this means that capital or skill thresholds should not count as a major obstacle to self employment in these sectors (Cichello 2005). But for exactly that reason, these sectors are also very crowded and competitive, which decreases their potential for bringing in significant income and makes it quite difficult for them to be viable.

Here, the limitations of an analysis of “survivalist” business that focuses mostly on the extent to which they converge with, or diverge from, the supposed characteristics of a “proper” formal sector business becomes particularly evident. As we have seen, the marginal and survivalist nature of informal economic activity sometimes gives rise to the notion that the problem with “self employment” and “micro enterprises” among poor people is that they somehow lack entrepreneurial ability, do not understand markets or, as Maas and Herrington (2006) put it, lack the required “mindset”. The problem with this notion is not only in its veiled racism, but that it also fails to recognise the significant amount of ingenuity, strategic knowledge and effort that is required to sustain informal economic activity under the difficult conditions at the margins of the formal economy.

One important requirement for survival, as we have noted, appears to be the willingness to invest huge amounts of labour and time for vanishingly small margins. Another appears to be the ability to negotiate the “politics of intimacy” constituted by the complex networks of reciprocation and the creation and exchange of obligations, debts and duties within social networks. These

networks are vital to the systems of “private social protection” that allow poor South Africans to mitigate poverty and the effects of vulnerability; but they can also be the epicentre of serious conflict, tension and highly unequal forms of exchange (Spiegel et al 1994, Spiegel & Mehlwana 1997; Bracking & Sachikonye 2006; Sagner & Mtati 1999; du Toit & Neves 2006). This is a key issue: the viability of businesses did not appear to be based simply on their ability to compete on market factors like price and quality. Rather than existing in the anonymity of an open market where the social relationships between buyers and sellers were unimportant, these businesses often had their being entirely within the network of acquaintances, household members and kin.

A linked feature of these activities is that very often they are not at all clearly distinguished from the domestic economy of the households within which they are pursued. Purchases for own consumption and for businesses purposes could not be neatly separated, and very often stock bought for the purposes of retail would be used to tide over household members during difficult periods, or would be subject to competing claims. Were such households selling their groceries – or eating their stock? The answer sometimes seemed to be “both.” The lack of distinction between the household economy and the “business” should not be seen as evidence that informants did not understand “business principles”. For one thing, their difficulties in creating a “business” separate from the economy of the household stem simply from the harsh realities of poverty. For another, if economic shocks or hiatuses sometimes meant that household members “ate the spaza” this does not mean their business strategy failed; it simply means that utility of informal economic activity should not be seen *exclusively* in terms of its potential to become the seed of a formal-like, profitable business, but also in the way it allowed participants to leverage and supplement scanty domestic resources and cope with shocks.

This is related to a key feature of the “survivalist” informal economic activities revealed through research: their supplementary and complementary role within a portfolio of other activities to which they were linked in complex ways. Most of the informal economic activities in the study were not self-sustaining, but depended for their continuation on people’s ability to leverage one activity through another, or to create complex synergies between activities. In some cases, a single person or a single household engaged in a wide range of activities that supplemented, complemented and fed each other – cash from looking after neighbours’ children or doing their washing providing resources to buy stock for the shop. In other cases, funds from formal employment or from a social grant supplied the cash that enabled informal economic activity to keep going.

What is true “inside” the “household” is also true in relation to the markets in which informal economic activity was conducted. This is most obviously true for the selling of meat and *umqhomboti*, which often is very strongly conducted within the context of local face to face networks, and linked, to the local perceptions of the reputation of particular women and their households (Slater, 2001). Another important way in which social relationships shaped the prospects

for and conduct of informal economic activities was through the dynamics of credit. Here, we are not talking about the need *for* credit on the part of people involved in informal economic business. Indeed — rather surprisingly, given the huge importance accorded to micro-credit by much of the literature on informal enterprises — very few informants at all mentioned the need for credit as a major constraining factor. But quite often informants did, without prompting, mention the difficulties posed by the fact that they needed to *give* credit. In a context where informal economic activity is pinned to impoverished areas, and where supermarket chains easily “suck” large amounts of money out of the local economy, staying in business often depends on one’s willingness to give *and recover* credit. Sustaining informal economic activities therefore required careful and astute credit management strategies. This has important implications. Quite obviously, this reliance on credit is another factor that means that even for very low level marginal activities, business is mostly conducted between people who know one another. But beyond this, one’s ability to pursue a business is also crucially affected by social identity and social relations. More than one informant, for example, highlighted that gender played a major role in one’s ability to collect credit, holding that “a man can’t ‘collect’ a woman” or, inversely, that “a woman could not ‘collect’ a man.” This has important implications particularly for the ability of single female household heads to participate in informal economic activities. All these factors illustrate the importance of understanding in detail the nature of the social relationships that constitute the context of informal economic activities of whatever kind.

These considerations emphasise the ambiguous and complex implications of dependency on social networks for small business activity. To the extent that social networks enable people to make strong claims from family or household members, it plays a key role *both* in enabling informal economic activity (for example by allowing pressure on family members to contribute free labour to informal enterprises) *and* limiting it (by allowing strong claims on the proceeds or even the stock of such “businesses”).

It is important that an awareness of these ambiguities does not lead to pat, formulaic or reductive analyses. In recent years, some analyses of the risk mitigation strategies of poor people have tended to cast these difficult compromises as “Faustian bargains” in which long-term prospects are sacrificed for short-term security (Wood 2003). Quite aside from the availability of such metaphors for appropriation in narratives in which the risk-averse poor are blamed for their own poverty, we found little evidence for such clear and instrumental trade-offs. We could not find cases in which viable paths to long-term wealth had been eschewed through timidity or caution. The rather more dispiriting reality seems to be that for many informants, social and economic agency *as such* was very often circumscribed, and dependent on shifting and perilous foundations. Some — partly because of other forms of positional advantage and resource access — can act powerfully within their social networks, commanding significant favours and driving hard bargains; others transact at a disadvantage, consigned to social “thin ice” by the vagaries, for example, of social status, age, gender or resource access (du Toit & Neves 2006).

Successful self-employment in Khayelitsha and Mount Frere, then, is not simply a function of whether one has “the skills” that are required by “the first world economy”; neither is it a matter of a suitable “mindset”, or one’s “entrepreneurial ability” backed up by suitable sources of microcredit. Ability to participate economically is linked to one’s social positioning in the complex networks whereby township and rural society is constituted. Those who already have resources, and those who occupy powerful positions within their social networks (who, to use current development-speak, have more “social capital”) are better positioned, have more heft and leverage in the pursuit informal *and* formal economic activities, than those who do not.

## **7 Unequal contests on a fractured terrain: the political economy of adverse incorporation**

Where does this leave “second economy” talk, and what are the alternatives? The point of our arguments so far is not simply that poor people and poor areas are linked to the broader economy — that would be readily conceded by many who have used the notion of the “second economy”. Nor is it simply that the wealth of some depends on the poverty of many: though that is worth remembering, it is hardly a new observation, and does not require the close-grained analysis of livelihood activities. Rather, it is to complicate the neat stories and compelling meta-narratives that underpin the apparent self evidence of dominant stories about poverty, growth and inequality.

One key aspect of ‘second economy’ discourse, for example, is that *both* the ways in which it depicts disconnection *and* the ways in it renders integration suffer from an underlying functionalism. “Integration” presupposes a rational, functional whole in which every part “makes sense” in terms of its relationships to all the other parts. Proposing that people should be “integrated” in the first economy imagines that they can find a functional place in which their transactions are both efficient and optimal to themselves and other actors in the “system”. That is a highly normative lens through which to view the nature of links and connections: in this view one is either well integrated into the system... or not. The existence of problems (unequal power relations, or unequal or exploitative exchanges) are imagined simply to be imperfections, distortions of a system that *in itself*, in principle, should work to everyone’s advantage. Given Banerjee *et al*’s grim conclusions about the capacity of the South African economy to absorb additional labour (Banerjee *et al* 2006), such assumptions may be ill-founded.

The same functionalism, of course, can be found in reductive explanations that simply explain the existence of the “margins” in terms of the depredations of a monolithic centre; that are content to point out how the economic system produces poverty and marginality, and that sees everyone “at the margins” as equally being the victims of unequal power relationships. As we have seen, neither Khayelitsha nor Mount Frere are undifferentiated wastelands of “surplus people”. Nor are the commanding heights of the economy monolithic simple

geographic centres. Although the notion of the “margins” and the “centre” might still have some imaginary force, they need to be imagined as part of a fractal topography, a shape in which both the centre and the margins are *everywhere* present. And a crucial issue here is the highly differentiated nature of social and economic agency everywhere on this terrain. Though Grunebaum-Ralph and Henry tend to speak as if the holders of power exist unproblematically in “centre”, while all the rest are excluded to exist as what Zygmunt Bauman called “human waste” (Bauman 2004), the reality is that even within the “margin” there are “winners” and “losers”, power holders and disempowered people – and everyone in between.

Is the whole concept, then, to be discarded? How else to frame the possibility of systematic structural disjuncture or segmentation? One very important aspect of “second economy” discourse — and one of the reasons for its powerful hold on our imaginations — lies, as was pointed out above, in its role as a powerful metaphor. It asks us to imagine the South African economy as a larger, spatially articulated whole, to explore the ways in which it might be systematically segmented, and in particular to consider the ways in which poor people might be systematically disadvantaged by the way they are inserted into this broader economy. In this way, second economy talk has a similar potential to that of the notion of “social exclusion” explored by one of us in other papers (du Toit 2004, Hickey & du Toit 2007). The “value-added” of such terms and metaphors arguably lies in their ability to focus attention on the ways in which particular individuals, groups, or livelihoods are situated *in relation to* larger, more complex, spatially and institutionally elaborate social and economic formations: countries, markets, economies, communities, and so on.

This is an important concern: for although our arguments above tend to complicate the simplistic binary oppositions (“first economy/second economy”; “well integrated / disconnected”) our findings do seem to reinforce the notion that *connections matter*. A rural household’s connections with the urban outposts are a vital resource, not only because they may be the source of remittances, but also because they are vital beach-heads in its own members’ migrant strategies and their “struggle for the cities” (Mabin 1990). Similarly, these connections are crucial to the spatially extended care chains that allow urban households to rely on older rural kin for child and sick care; that allow “distributed” forms of economic activity; and that support the household reproduction and maintenance arrangements that allow urban households to “invest back” into rural homesteads. Again and again an analysis of the configuration of livelihoods and economic activity highlights the importance of complex, *spatially* extended and distributed social and institutional frameworks: the “many rooted” and “rhizomic” (Banks, Kamman & Meyer 2006; du Toit, Skuse & Cousins 2007) structure of extended kin networks; the social and family associations that allow Pakistani and Chinese traders to bring cheap manufactured goods to distant Eastern Cape Towns; the roads that either allow easy passage or make distance impassable; the complex articulation between the systems of local government, delivery, traditional leadership and local elite networks; and, crucially, the complex institutional architecture of the monetised South African economy (the electric

grid, cellphone telephony, supermarket distribution systems, complex and vertically integrated commodity chains, the cash economy itself!) — all these phenomena, at one level completely diverse, are also and importantly elaborate *spatial connective frameworks* that play a key role in the process of social ordering — and confer advantage and disadvantage in highly differential and uneven ways.<sup>4</sup>

Such an analysis allows us to focus more clearly on the nodes everywhere in society where power and advantage congeal, and aids us in exploring the factors that allocate people their positionality in these networks. In such a framework, the key issue is not *whether* or not people are connected; but the always complex consequences of *particular forms* of integration. Supermarkets and roads can bring cheaper food; but they can also eviscerate local agrarian systems. Migrancy can benefit some, but if some rural households benefit from migration, rural prices can rise even for those who have not (Bracking & Sachikonye 2006). Connections between urban and rural kin can bring access to resources and can cushion shocks — but by that very token they are the conduit for counter claims and the *transmission* of shocks as well.

What is revealed is not a vision of an economy that is comprised out of two distinct and disconnected realms, nor the simple contrast between the powerful urban centres and their scrap-heaps of discarded human lives. Rather, what emerges is the messy map of unequally constituted, differentially positioned and closely related spaces described by James Ferguson in his analysis of the spatial and institutional workings of “globalisation” (Ferguson 2006): enclaves of power and peripheralised zones; circuits, routes and “wormholes” that connect distant realms in surprisingly direct ways; spatial traps and buffer zones; rural outposts and urban beach-heads.

Even more crucially, this is not a realm of “mere complexity”. If power and advantage congeal, they congeal in systematic ways. Race and class may not intersect exactly as they have done in the past (Seekings and Natrass 2005) — but for many, the persistence of deeply embedded racialised and gendered power relations and accumulated socio-economic disadvantage interact with the processes of globalisation and post-industrial economic growth to create deep structural obstacles to economic and social agency — *within* a system on which they are thoroughly dependent. That is one of the reasons for proposing the notion of “adverse incorporation” as a key theme in the study of persistent

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<sup>4</sup> This is related to a theoretical issue: the social and economic agency of any individual person, and their ability to benefit from that agency is mediated and shaped, not only by the particular resources upon which they can draw (the familiar ‘capitals’ or ‘assets’ of the ‘livelihood framework’ that dominates much of development research) but also on their positionality in respect of these larger, spatially articulated formations: their relationship to the circuits and connections through which resources and burdens, ‘shocks’ and windfalls are transmitted across space, and their access to what we might call social technologies of spatialised power. These constitute the ‘actant networks’, as actor network theory puts it, that allows particular people to ‘act at a distance’, to make their influence felt in distant places, and that in turn transmit the effects of far off events and processes into local contexts.

poverty. If policymaking and enquiry need a simplifying lens or a guiding metaphor, we may do well to replace the narratives of mere “exclusion” with the notion that poverty persists also because of the disadvantageous ways in which people are *incorporated* into economic and social life in disadvantageous ways — and that rather than merely trumpeting integration, policymakers should seek to reduce the vulnerability and disadvantage created by systematic inequality.

## **8 Conclusion: what is found there**

How does this help in policy terms? It would be arrogant and presumptuous to spell out a whole alternative package of measures that, would government only implement them, would do away with persistent poverty. That requires detailed policy work and thought in its own right. As a beginning, however, a valuable start might be made by trying to liberate analysis from the teleological, evolutionary assumptions that assume that what exists in the “third world” economy needs to be understood normatively through the lens of how it falls short from the “first:” an approach to life at the margins of the formal economy that fails to see how the livelihood strategies that are found there are appropriate adaptations to the realities of the terrain on which they survive, and that can only positively value those aspects of self-employment that can be read as being at least in principle “proper” western-style businesses.

If this does not sound like an important issue, consider the announcement, in February 2006, by deputy President Phumzile Mlambo Ngcuka, of an initiative called Accelerating Shared Growth –South Africa – a strategy in which government carved out a much more clearly developmental role for the South African state – aiming to halve poverty by 2014 (RSA 2006). A significant number of the measures proposed in this document were initiatives aimed primarily at reducing the cost of business in the “mainstream” economy, but an important section of the document also announced a grab-bag of initiatives aimed at “eliminating the second economy.” Most prominent among these was the proposal to leverage increased levels of public expenditure to develop small business, apparently by relying on preferential procurement, access to finance, and a review of regulations, making use of the business opportunities offered by the 2010 World Cup. Other initiatives had a distinctly de Sotoan flavour, such as the proposal that government would realise the value of “dead assets” through accelerating the formalisation of land tenure and the implementation of the financial services charter. Subsequently a detailed programme of action has been developed by ASGISA (Mlambo-Ngcuka 2006), including an initiative called “Jobs for Growth”, situated in the DTI, which reportedly aims to create one million jobs in 300 000 small enterprises and co-operatives in the rural areas in the next 5 years, a programme which is apparently to be modelled on the Israeli Kibbutz experience (NatGrowth 2007).

Though undoubtedly some of these initiatives are laudable – prioritising training and supporting small businesses are clearly useful things to do - what is immediately striking is that most of these initiatives are open to the very same

charge formulated by President Mbeki in his own critique of the limitations of classic trickle-down: though they are purportedly focused on the “second economy” it is hard to see how they can be of benefit to any of the “survivalist” businesses described here. Like so much of SMME policy, many of the proposals lack any kind of traction on the difficult realities faced by those at the margins of the formal economy, and appear to be aimed at “businesses” and “enterprises” that are already much more advantageously positioned. Other ideas – like the bizarre notion that one million jobs can be created *inter alia* through supporting Israeli-style co-operatives in the rural areas – seem founded on a distinct misunderstanding of the history of the heavily subsidised kibbutz movement *and* a failure to grapple with local structural conditions in which South African co-ops would have to survive. And though existing tenure arrangements in the communal areas do render many people subject to the authority of local gatekeepers, it is unclear whether a de Sotoan package of tenure formalisation would “unlock” much “dead value” at all (Cousins *et al* 2005).

These conclusions are not only relevant to South Africa. In this paper, we have shown that a close analysis of the real social and power relations that enable or undermine economic activity at the margins of the formal economy give the lie to naïve or totalising narratives that see poverty as residual, as the ‘remainder’ left over by ‘not enough growth’, and that assume that this can be addressed through the modernising magic wrought by better integration with the mainstream economy. Clearly, some do benefit from such integration; but others do not, and policy has to be based on a realistic assessment of the ways in which the normal operation of markets in the mainstream economy themselves can increase inequality and exacerbate vulnerability. This should be enough to raise real questions about the metanarratives of modernisation and capitalist integration that inform initiatives like NEPAD or simplistic assumptions about the links between globalisation and growth in ‘developing countries’.

Rather than aim at “eliminating” the second economy or hoping that it can somehow be transfigured into the first, policymakers would do better to look carefully at measures that can ameliorate existing power imbalances and reduce inequality. Looking at “what is found there” by a less pathologising, less normative gaze, abandoning the naïve belief that “integration” on its own will confer the benefits of modernity on those who unaccountably remain outside, and looking at the exclusionary implications of mainstream corporate practice in South Africa may help crafting policies that are better at addressing the adverse nature of some of the power relations between poor South Africans and the larger economic formations to which they are connected; policies which value and support the fragile survival strategies that take shape on this hostile and difficult terrain.

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