

SECOND CARNEGIE INQUIRY INTO POVERTY
AND DEVELOPMENT IN SOUTHERN AFRICA

A history and an analysis of the
bread subsidy in South Africa
by

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INTRODUCTION

Since the 1930s the state has exercised food management policies with the aim of promoting domestic agriculture, ensuring supplies at relatively constant prices to the consumer, and providing certain foodstuffs at low cost for nutritional reasons.

In this paper I shall examine one aspect of the state's food management policies, namely that relating to bread production and distribution. Its importance is underlined by the fact that, following a reduction in the bread subsidy, the bread price was raised in October 1982, against widespread opposition from community organisations. It was suspected that the government intended to remove the bread subsidy altogether. I shall try to show what the effect on consumption would be if the subsidy were removed, and give an assessment of the benefits of the subsidy to various sectors of the community in South Africa.

ORIGIN OF THE BREAD SUBSIDY

As is frequently the case with food price subsidies, the subsidy on wheat was originally intended to be temporary. In the 1939-1940 season producers were compensated by the Wheat Board for the rise in the costs of production after the outbreak of the war. The subsidy amounted to 1s per bag of wheat. Taken from the Board's levy fund, it amounted to £173 000. It was introduced 'to bridge what was at that time regarded as a temporary cost and price increase' (Wheat Board Report 1952/3).

In the following (1940/1) season there were significant production price increases; a subsidy of 2s per bag was paid, half by the government and half by the Board, making a total of £393 542. The subsidy has been maintained ever since.

STATE FOOD MANAGEMENT POLICIES

A. Wartime Frugality

The state has regularly intervened in the food industry, often with clearly

expressed nutritional objectives. During and shortly after World War II this took the form of introducing coarser bread and forbidding the production of foodstuffs requiring high wheat usage.

The shortage of wheat on the world market at the outbreak of World War II resulted in the abolition of white bread, save for military and civilian hospitals, and the introduction of a rougher, 'standard loaf' with a more efficient wheat usage. The standard loaf was made from unsifted meal of a high extraction rate of 96%; the white loaf had been made from bakers' flour of a low extraction rate of 80%. Whereas 200 pounds of wheat gave approximately 190 pounds of unsifted meal, it gave only 140 pounds of bakers' flour, i.e. the substitution of white bread by standard bread meant a gain of 50 pounds per bag of wheat, or 25%.

Other low extraction products were simultaneously prohibited and quantities of macaroni and confectionery were limited.

During the 1945/6 season, a severe shortage of maize was experienced, resulting in sharply increased purchases of bread, particularly by the black population. Thus consumption of bread on the Witwatersrand during January, February and March of 1946 was 47%, 43% and 31% higher respectively than during the corresponding months of 1945. The Board commented that wheaten bread constituted a substitute for mealie meal among the black population, and felt there was good reason for believing that a large percentage of that substitution had been of a permanent nature (Wheat Board Report 1945/6, p.3).

In 1946, as part of the belt-tightening measures, sieving meal of types 1 and 2 was forbidden, effectively excluding the production of biscuits. The making of toast by hotels was proscribed. In May 1946 the weight of the standard loaf was decreased from 32 to 29 ozs. and the price reduced from a maximum of 7d to 6½d over-the-counter in order to distribute the country's limited wheat resources more widely.

B. Price Manipulation

In the post-war years state intervention took the form of a special subsidy on brown bread in order to encourage consumption of this nutritious foodstuff.

During 1947 and 1948 the wheat market gradually improved. On 1 November 1948 the Union was able to return to the unrestricted sale of white bread. In the 1948/9 season, white bread constituted 91,5% and brown 8,5% of all bread sold (Wheat Board Report 1950/1).

The government decided to pay a special subsidy on brown bread in order to encourage its consumption, because of its nutritional value and in order to reduce the quantity of wheat imported. The ordinary difference of $\frac{1}{2}$ d between the price of white and brown bread was widened by reducing the over-the-counter price of brown bread by $\frac{1}{2}$ d (to 6d) and increasing the price of white bread by $\frac{1}{2}$ d (to 7 $\frac{1}{2}$ d). In one month (October 1949 - November 1949) the proportions of consumption for the Union as a whole changed from 91,95% white:8,05% brown, to 80,0% white:20,0% brown. The increase in brown bread consumption was retained: in the period November 1949 to October 1950, the percentages for the Union as a whole were 77,9% white:22,1% brown as compared with 93,7% white:6,3% brown for 1948/9. In the opinion of the Board '... the special subsidy paid on brown bread ... has succeeded admirably' (Wheat Board Report 1950/1, p.24).

C. Enriched Bread

State intervention in the fifties took the form of the introduction of enriched bread aimed at lower income black and white consumers. The special subsidy on brown bread was retained meanwhile.

The enriched bread scheme was launched in July 1952. Enriching ingredients like groundnut meal, buttermilk powder, skimmed milk powder, and calcium carbonate were prepared in the form of a 'premix' and supplied to bakers, together with fat, by the Department of Nutrition. The enrichment was limited to brown and wholewheat bread. Initially the

enriched bread was sold at the same price as brown bread; production costs were also the same (Wheat Board Reports 1951/2 and 1952/3).

In 1953 the price of enriched brown bread was left unchanged at 6½d per 2-pound loaf, the price of ordinary brown bread was increased by ½d to 7d per loaf and the price of white bread was increased by 1½d to 9½d per loaf. White bread and brown bread production started to show a considerable drop while the production of enriched bread showed a corresponding increase. By October 1953 the production of white bread, which had constituted some 80% of all bread production, had fallen to 68,7% of the total, while brown bread constituted 6,4% and enriched bread 24,9% of the total (Wheat Board Report 1960/1).

Contradictory opinions were offered on the market response to the provision of enriched bread.

In 1957 the Minister of Health said in Parliament that a survey of bread consumption in the Union had been conducted by the National Nutrition Research Institute of the CSIR in 1955 (Hansard 8.2.1957). It found that of the total bread consumption of 'Natives', fortified bread amounted to 54,8%; for 'Coloureds' the figure was 47% and for 'Asiatics' 22,8%. Quantities sold to all groups in the Union were as follows:

Table 1

Consumption of bread in the Union of South Africa,
1955 and 1956

| Item | 1955 | 1956 |
|--|-------------|-------------|
| White bread | 296 875 894 | 305 235 106 |
| Brown bread | 31 798 145 | 31 381 894 |
| Fortified bread | 145 592 714 | 149 502 874 |
| Fortified bread as a percentage of all bread | 30,4% | 30,8% |

If the NNRI survey was representative, it is apparent that the enriched bread programme was a success in 1955, because the most disadvantaged

groups ('Natives' and 'Coloureds') ate proportionately more enriched bread (i.e. 54,8% and 47%) than did all groups together (30,4%). It is reasonable to suppose that the popularity of enriched bread was partly due to its lower price.

However, the Board did not take the sanguine view of the Minister. It argued in 1952/3 that the subsidy was a failure as far as the lower income groups were concerned, for 'these classes do not eat brown bread'. The time had come, reasoned the Board, for the gradual abolition of the subsidy on bread and meal. The subsidy had been introduced to bridge what at that time was regarded as a temporary cost and price increase, but a new cost and price structure was now current; thus 'the justification for payment of the subsidy had lapsed to a large degree'.

The Board also argued that the special subsidy on enriched bread should be removed, because 'this bread is consumed almost exclusively by the well-to-do classes'. Moreover consumer sales of enriched bread were not so high when it was borne in mind that government institutions like hospitals and schools ordered only enriched bread. The government, the Board felt, should offer nutritional education about the advantages of enriched bread rather than pay needless subsidies (Wheat Board Report 1952/3).

This opinion was repeated in subsequent years. In its Annual Report of 1957/8 the Board iterated that:

'... enriched brown bread is mainly eaten by those income classes that can well afford a balanced diet. It has recommended to the Government that the prices of unenriched and enriched bread should be the same, and that the Government should rather acquaint those customers who need it with the advantages of enriched bread by means of efficient guidance. In addition to the doubts raised above there is the considerable expense incurred by the Board in administering the various subsidies.' (p.12)

In the end the opinion of the Board won the day. In April 1959 the price for all grades of bread were increased by ½d per 2-pound loaf, and the subsidy of ½d per 2-pound loaf on enriched bread was abolished; thus the price of ordinary brown bread and the price of enriched bread became the same. Once again, the market response to the changes in price was swift.

The production of ordinary brown bread immediately increased from 5,9% of total bread production in March 1959 to 23,1% in September 1959, while enriched bread production decreased from 31,8% of total bread production in March 1959 to 15,9% in September 1959. (Wheat Board Annual Report 1960/1).

At the end of September 1959 the production of enriched bread was discontinued.

In its 1960/1 Annual Report the Board repeated that it continued

'... to have serious doubts regarding the efficacy of the special subsidy on sifted and unsifted meal, and is of opinion that an increased consumption of brown bread by the lower income groups can only be achieved by education and well-planned guidance.' (pp.13-14).

Unfortunately it is virtually impossible to assess the different opinions of the Minister of Health and the Wheat Board regarding bread consumption by lower income groups in this period. However, I shall attempt below to show that, even if the Board was correct in 1960 in considering price manipulations incapable of raising the nutritional status of lower income groups, this is no longer the case.

RECENT BREAD CONSUMPTION PATTERNS AND PRICE SENSITIVITY

We have already indicated several instances when dramatic shifts in consumption of bread occurred in response to price changes.

The most dramatic of these is the shift from white bread to brown between 1975/6 and 1980/1.

Whereas white bread constituted 66,7% of the bread market in 1975/6, its share had fallen to 29,5% in 1978/9 and 29,0% in 1980/1. Correspondingly the market share of brown bread rose from 30,2% in 1975/6 to 66,9% in 1978/9 and 68,4% in 1980/1.

Table 2

Sales and prices of bread in South Africa, 1976 - 1981

| | White bread price, cents year end 31 Dec. | Sales of white bread, metric tons year end 30 Sept. | brown & wholewheat price, cents year end 31 Dec. | Sales of brown bread, metric tons year end 30 Sept. | Sales of wholewheat bread, metric tons year end 30 Sept. | Ratio of white bread price to brown bread price | Total |
|--------------------|---|---|--|---|--|---|-------------------|
| 1976 % of Total | 17,3 | 701 229 66,70% | 14 | 317 986 30,24% | 32 180 3,06% | 1,24 | 1 051 395 100% |
| 1977 % of Total | 20 | 674 697 64,19% | 16 | 342 850 32,62% | 33 560 3,19% | 1,25 | 1 051 107 100% |
| 1978 % | 25,5 | 442 927 41,63% | 16,5 | 577 748 54,30% | 43 394 4,08% | 1,55 | 1 064 069 100% |
| 1979 % | 26 | 336 059 29,52% | 17 | 761 806 66,93% | 40 355 3,55% | 1,53 | 1 138 220 100% |
| 1980 % | 29,7 | 348 834 27,51% | 19,9 | 880 781 69,46% | 38 482 3,03% | 1,49 | 1 268 097 100% |
| 1981 % | 35,5 | 392 674 28,96% | 24,3 | 926 960 68,36% | 36 289 2,68% | 1,46 | 1 355 923 100% |

Source: Sales from Wheat Board Annual Reports.

Prices from South African Statistics 1982. These figures differ slightly from the Wheat Board figures since they are weighted averages taking into account the time of the price changes and the introduction of sales tax.

Table 3

Average annual cash expenditure per black household in Johannesburg, excluding purchases immediately consumed away from home

| Item | 1970 R | Percentage of food budget | 1975 R | Percentage of food budget | Percentage increase on 1970 | 1980 R | Percentage of food budget | Percentage increase on 1975 |
|-------------------------|-----------|------------------------------|-----------|------------------------------|-----------------------------------|-----------|------------------------------|-----------------------------------|
| White bread | 21) | | 45) | | 114 | 25) | | -44 |
| Brown and wholewheat | 7) | 6,5 | 15) | 6,7 | 114 | 82) | 7,6 | 447 |
| Mealie- meal | 36 | 8,4 | 41 | 4,6 | 14 | 81 | 5,8 | 98 |
| All grain products | 86 | 20,0 | 138 | 15,4 | 60 | 273 | 19,5 | 98 |
| All food | 430 | 100,0 | 897 | 100,0 | 109 | 1403 | 100,0 | 56 |
| All cash expenditure | 1118 | | 2329 | | 108 | 3840 | | 65 |
| Number in sample | - | | 292 | | | 497 | | |

Source: Research Reports of Bureau for Market Research 94,7 (Pretoria: 1982),
50.3 (Pretoria: 1976),
27.2 (Pretoria: 1970).

Changes in consumer awareness of the nutritional value of brown bread as compared to white may have been one of the factors in the consumption shift. However, the major identifiable factor is the increasing disparity in prices of brown and white bread. In 1975 white bread was 23% more expensive than brown; in 1976 it was 23,6%; in 1977, 25%; in 1978, 54,5%; in 1979 52,9%; in 1980 49,2% and in 1981 46% more expensive.

Consumption patterns from Bureau of Market Research estimates confirm that the recent shift to brown bread is not restricted to well-to-do white households.

The figures in Table 3 show that bread comprised an estimated 6,5% of the food budget of black Johannesburg households in 1970, 6,7% in 1975 and 7,6% in 1980, showing a gradually rising trend. Mealie-meal comprised 8,4% of their food budget in 1970, but fell to 4,6% in 1975 and rose slightly to 5,8% in 1980. Grain products as a whole comprised 20% of the food budget in 1970, but 15,4% in 1975 and 19,5% in 1980.

It is not clear from these figures whether the long-term trend in mealie-meal consumption is falling. However it is apparent that consumption of bread has been rising gradually, and that a pronounced shift to brown bread has occurred: brown bread comprised 25% of the bread bill in 1970 and 1975, but 76,6% in 1980.

The pattern of bread consumption by income group is apparent from the figures in Table 4 on the following page.

In the income group R0 - R3000 p.a. bread forms a larger part of the food budget (average 10,08%) than for higher income groups (between 5,4% and 7,1%).

In the 'homeland' Venda, some different patterns emerge as can be seen in Table 5.

Table 4

Average annual cash expenditure by black multiple households in
Johannesburg, 1980

| | <u>I n c o m e G r o u p</u> | | | | | | | | | | | Average |
|--|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------|---------|
| | <u>R a n d p e r y e a r</u> | | | | | | | | | | | |
| | 0 - 1000 | 1000- 1500 | 1500- 2000 | 2000- 2500 | 2500- 3000 | 3000- 4000 | 4000- 5000 | 5000- 6000 | 6000- 7000 | 7000- 8000 | 8000 + | |
| White bread | 19,93 | 33,4 | 16,15 | 27,34 | 24,25 | 20,06 | 22,08 | 18,09 | 17,31 | 26,96 | 75,62 | 24,93 |
| Brown and wholewheat bread | 56,06 | 53,14 | 87,99 | 67,18 | 92,78 | 82,47 | 74,47 | 123,8 | 94,72 | 131,63 | 57,95 | 82,25 |
| All food | 649 | 924 | 965 | 1106 | 1173 | 1450 | 1417 | 2034 | 2072 | 2236 | 1986 | 1403 |
| Bread exp. as a % of food expen- diture | 11,7% | 9,4% | 10,8% | 8,5% | 10,0% | 7,1% | 6,8% | 7,0% | 5,4% | 7,1% | 6,7% | 7,6% |

Source: Research Report of the Bureau for Market Research, 94.7, (Pretoria: 1982).

Table 5

Estimates of total annual cash expenditure in Venda in 1977 and 1980

| Item | S i b a s a | | | | A l l V e n d a | | | | | |
|----------------------------|-------------|-------------------------|-------|-------------------------|-----------------|-------------------------|--------|-------------------------|---|---|
| | 1977 | Percentage of food bill | 1980 | Percentage of food bill | 1977 | Percentage of food bill | 1980 | Percentage of food bill | | |
| White bread | 836) | 9,8% | 168) | 7,9% | 1546) | 10,1% | 304) | 8,5% | | |
| Brown and wholewheat bread |) | |) | |) | |) | |) |) |
| | 562) | | 986) | | 932) | | 2201) | | | |
| Mealie meal | 4146 | 29,1% | 3975 | 27,3% | 7419 | 30,2% | 10064 | 34,3% | | |
| All grain products | 6233 | 43,7% | 5456 | 37,5% | 10997 | 44,8% | 13090 | 44,6% | | |
| All food expenditure | 14247 | 100,0% | 14568 | 100,0% | 24573 | 100,0% | 29352 | 100,0% | | |
| All expenditure | 30520 | | 30165 | | 48907 | | 56709 | | | |

Source: Research Reports of the Bureau for Market Research 64 (Pretoria: 1978) and
88 (Pretoria: 1981)

Firstly, in this predominantly rural area bread is of relatively small importance compared with mealie meal in the diet of the average household. Secondly, the importance of bread in the diet has been roughly comparable to that in urban Johannesburg - in Venda, bread comprised 7,9% - 10,1% of the food bill, and in Johannesburg 6,5% - 7,6%, with a greater spread for different income groups.

However, as in urban Johannesburg, the Venda market has experienced a pronounced shift from white to brown bread purchases. In Sibasa, white bread constituted 59,8% of the bread bill in 1977, but only 14,6% in 1980. In Venda as a whole white bread formed 62,4% of the bread bill in 1977 but only 12,1% in 1980.

To summarize, a pronounced shift from white bread to brown bread consumption took place between 1975 and 1980, partly because of the increased price differential; and consumption surveys in an urban black area and a rural black area show that this pattern is common to both white and black households.

AMOUNT OF SUBSIDY

Historical trends of the amount of the bread subsidy, together with GDP and Budget figures, are shown in Annexure 3.

After the two small initial subsidies in 1939/40 and 1940/1, the amount of subsidy settled at an average proportion of 0,231% of GDP and 1,59% of budget for the first period 1941/2 to 1946/7.

During the second significantly different period, from 1947/8 to 1959/60, the bread subsidy formed an average of 0,417% of GDP and 3,47% of budget.

During the third significantly different period from 1960/1 to 1980/1, the bread subsidy was on average 0,201% of GDP and 1,47% of the budget.

If the authorities' sole motive were to reduce the price of bread to the consumer, this could be done by permitting wheat imports and there would be less need for a consumer subsidy. Clearly the government's intention is simultaneously to ensure relatively cheap bread and to aid the wheat industry.

B. Consumers

It is probable that the bread subsidy acts upon the household food basket in three ways at once:

- (a) As an indirect income transfer it increases the total amount of food consumed.
- (b) As an indirect income transfer, it results in spending on higher quality foods and non-food items.
- (c) It induces a shift in consumption to bread from other foodstuffs.

A rough guide as to which consumer groups benefit most from the bread subsidy may be derived from the following Bureau for Market Research calculations.

Table 7 Expenditure by households in South Africa, including Transkei and Bophuthatswana, 1975

| Item | 'Whites' | 'Africans' | 'Coloureds' | 'Indians' | Total |
|----------------------------|----------|------------|-------------|-----------|----------|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| Mealie meal | 16021 | 183173 | 2214 | 533 | 201941 |
| White bread | 42144 | 74141 | 23606 | 9882 | 149773 |
| Brown and wholewheat bread | 14503 | 25142 | 3865 | 1147 | 44657 |
| All bread | 56647 | 99283 | 27471 | 11029 | 194430 |
| All grain products | 200291 | 436723 | 65017 | 33098 | 735129 |
| All food | 1967802 | 1874824 | 437146 | 209488 | 4489260 |
| All expend. | 12123804 | 4618024 | 1236777 | 674878 | 18653483 |
| Population | 4241652 | 18162560 | 2367195 | 726408 | 25497816 |

Source: Bureau for Market Research Research Report 77 (Pretoria: 1977).

Table 8 Percentages of expenditure by households in South Africa, including Transkei and Bophuthatswana, 1975

| | 'Whites' | 'Africans' | 'Coloureds' | 'Indians' | Total |
|----------------------------|----------|------------|-------------|-----------|-------|
| Mealie meal | 7,93% | 90,71% | 1,10% | 0,26% | 100% |
| White bread | 28,14% | 49,50% | 15,76% | 6,60% | 100% |
| Brown and wholewheat bread | 32,48% | 56,30% | 8,65% | 2,57% | 100% |
| All bread | 29,13% | 51,06% | 14,13% | 5,67% | 100% |
| All grain products | 27,25% | 59,41% | 8,84% | 4,50% | 100% |
| All food | 43,83% | 41,76% | 9,74% | 4,67% | 100% |
| All expend. | 64,99% | 24,76% | 6,63% | 3,62% | 100% |
| Population | 16,64% | 71,23% | 9,28% | 2,85% | 100% |

In all, the African group consumed an estimated 51,06% of all brown and white bread bought in South Africa in 1975, and therefore their share of the benefit from the bread subsidy was approximately 51,06%. The figure for whites was 29,13%. This effectively destroys the basis of one current myth about the bread subsidy, namely the false belief that since it is middle-class whites who benefit by the subsidy, it should be abolished since that group can see to its nutritional needs without it.

However, whites constituted some 16,64% of the population at that time, while Africans constituted 71,23%. On the BMR estimates, the average white spent R13,35 on bread in 1975, and the average black R5,47. Thus as a group Africans benefit more but individually whites benefit more because of their greater affluence.

Is the bread subsidy a net transfer to blacks? This depends on what proportion of the tax bill for the subsidy is paid by blacks. M.D. McGrath has estimated tax shares by racial group, using intermediate assumptions regarding their incidence on blacks in the areas of company tax, intermediate and final consumption, the intermediate production of goods and services, and taxes on capital. His results were as follows:

Table 9 Estimated tax shares by racial group
1949/50-1975/6

| Percent | | | | |
|------------|---------|---------|---------|--------|
| | 1949/50 | 1959/60 | 1969/70 | 1975/6 |
| 'White' | 81,1 | 79,9 | 78,8 | 76,9 |
| 'Coloured' | 5,4 | 5,3 | 5,1 | 4,3 |
| 'Asian' | 2,1 | 2,0 | 2,0 | 2,6 |
| 'African' | 11,4 | 12,8 | 14,1 | 16,2 |
| | 100,0 | 100,0 | 100,0 | 100,0 |

Source: M.D. McGrath, Racial Distribution of Taxes and State Expenditure (Durban: Department of Economics, University of Natal, Durban, 1979).

The proportion contributed by whites has fallen slightly over time, while that of Africans has increased. With the introduction of General Sales Tax rates of tax on personal income and company profits were lowered. This probably resulted in a further increase in the burden of taxation on non-white incomes. Even so, however, it is unlikely that the contribution by whites has fallen very much. A lower bound is set by the white share of GST, which may be derived from the following income figures.

Table 10 Salaries and wages 1975 and 1980

| | Whites | Coloureds | Asians | Africans | Total |
|------|------------|-----------|---------|-----------|------------|
| | R'000 | | | | |
| 1975 | 6 668 769 | 866 253 | 313 009 | 2 878 986 | 10 727 017 |
| % | 62,17% | 8,075% | 2,918% | 26,839% | 100% |
| 1980 | 12 340 100 | 1 722 795 | 680 331 | 6 080 168 | 20 823 394 |
| % | 59,261% | 8,273% | 3,267% | 29,199% | 100% |

Source: South African Statistics 1982.

Racial shares of GST will be close to these proportions, but slightly less in the case of whites whose income is larger and who are hence more likely to save. A lower bound on the white contribution to taxation is thus 59% in 1980. Now GST and sales duty for the financial year April 1980 to March 1981 was R1653 709 000, while income taxes were R7540 562 000 and total central government taxes R12 758 334 000 (South African Statistics 1982, Table 19.6). Thus the white contribution to taxation is probably closer to McGrath's 1975 figure of 76,9% than to the GST figure of 59,26%. Either way the bread subsidy represents a net income transfer from whites to Africans.

It is in fact a common pattern in many subsidy programmes that a trade-off has to be made between their universality and their appropriateness to their target group. Frequently a programme will be universally available to all, so as to avoid the bureaucratic tedium of distinguishing the real target group but will then end up benefiting most those who least need it. It can be seen that the South African bread subsidy suffers to a certain extent from a lack of direction.

JUSTIFICATION FOR THE BREAD SUBSIDY

Subsidies have in the past been justified on different grounds. Five main justifications offered by economic theory include externality correction, 'merit' wants, increasing returns, growth promotion, and income redistribution. The bread subsidy in South Africa is a net income transfer to lower income groups and can therefore be justified, as an indirect form of income redistribution.

According to the National Marketing Council's Report on the Control Boards under the Marketing Act 1950/1 - 1963/4, subsidies may be granted

- '(a) to fight inflation
- (b) to assist an industry to enable it to hold its own in a certain economic structure; and
- (c) to assist the consumers to enable them to obtain the products concerned at prices lower than they would have under the free operation of economic factors.' (RP40/1965,p.32)

Historically the chief justification for the bread subsidy in South Africa has been (c) above: to lower the price of bread to the final consumer.

However there are more questions to be asked:

- (a) Has the bread subsidy been correctly targeted, i.e. is it reaching the consumer for whom it is designed?
- (b) Could an improvement in nutritional status be achieved through other forms of subsidy?

(a) We have argued above that the lion's share of the benefit from the bread subsidy is reaching lower income groups, and may therefore be justified on grounds of targeting. It is true that the average white benefits more. White perceptions are crucial, however, for under present institutional arrangements it is the white consumer who has the final say about the existence of the subsidy. Unless there is a perceived benefit for the white consumer it is possible that for political reasons the subsidy would be removed altogether.

(b) Some argue that the operation of the market mechanism should not be interfered with, and that if, on humanitarian grounds, any subsidies are granted it should be in the form of cash to needy people subject to a yearly or quarterly means test. However, as mentioned above, the political difficulties of convincing the white electorate of the benefit of a direct income transfer from which whites obviously would not gain rule out this option. The present bread subsidy is one of the few politically feasible and easily administered methods of granting an income transfer of a kind and ensuring access to a reasonably cheap and nutritious foodstuff.

CONCLUSION

The bread market, among all population and income groups in South Africa, is sensitive to price changes. If the bread subsidy were removed, quantities of bread bought would probably fall swiftly. The hardest hit would be the lower income groups - who appear to purchase brown bread in preference to white bread just as middle-class whites do. No doubt alternatives would be sought; urban Africans might consume more maize, for instance. However it must be underlined that bread is a convenience food where maize is not. A shift away from traditional foodstuffs to bread is discernible in other countries which like South Africa, are undergoing urbanization.

Given the nutritional value of bread, and in particular the significantly greater nutritional value of brown bread over white, it appears that the government has a powerful nutritional interventive measure at its disposal in the form of manipulation of the bread price. Whether prices are kept relatively low by, as under the present scheme, simultaneously granting a consumer subsidy and benefiting farmers by forbidding wheat imports, or by, on the other hand, lifting import restrictions on the often cheaper wheat from international markets, is probably a matter of indifference to consumers in low income brackets.

ANNEXURE 1SALES OF BREAD IN SOUTH AFRICA FROM 1941/2 TO 1980/1

'000 Metric tons

| | <u>White</u> | <u>Brown</u> | <u>Wholewheat</u> | <u>'Standard'</u> |
|---------|--------------|--------------|-------------------|-----------------------|
| 1941/2 | 0,1 | - | 2 | 185 |
| 1942/3 | 0,2 | - | 1 | 222 |
| 1943/4 | 0,2 | - | 1 | 232 |
| 1944/5 | 0,2 | - | 1 | 228 |
| 1945/6 | 0,2 | - | 1 | 244 |
| 1946/7 | 0,2 | - | 1 | 255 |
| 1947/8 | 0,2 | - | 1 | 243 |
| 1948/9 | 269 | 23 | 2 | - |
| 1949/50 | 258 | 63 | 5 | - |
| 1950/1 | 260 | 84 | 8 | <u>Enriched bread</u> |
| 1951/2 | 303 | 69 | 7 | 5,6 |
| 1952/3 | 306 | 31 | 6 | 54 |
| 1953/4 | 270 | 19 | 6 | 102 |
| 1954/5 | 267 | 22 | 7 | 126 |
| 1955/6 | 273 | 23 | 7 | 132 |
| 1956/7 | 279 | 26 | 7 | 133 |
| 1957/8 | 291 | 22 | 7 | 142 |
| 1958/9 | 296 | 58 | 9 | 111 |
| 1959/60 | 301 | 174 | 15 | - |
| 1960/1 | 302 | 170 | 15 | |
| 1961/2 | 318 | 169 | 16 | |
| 1962/3 | 338 | 175 | 17 | |
| 1963/4 | 368 | 182 | 17 | |
| 1964/5 | 408 | 186 | 20 | |
| 1965/6 | 449 | 195 | 19 | |
| 1966/7 | 465 | 203 | 23 | |
| 1967/8 | 488 | 208 | 22 | |
| 1968/9 | 507 | 208 | 21 | |

ANNEXURE 1 Continued

| | <u>White</u> | <u>Brown</u> | <u>Wholewheat</u> |
|---------|--------------|--------------|-------------------|
| 1969/70 | 548 | 208 | 21 |
| 1970/71 | 538 | 250 | 23 |
| 1971/2 | 534 | 292 | 24 |
| 1972/3 | 558 | 300 | 26 |
| 1973/4 | 625 | 296 | 29 |
| 1974/5 | 657 | 302 | 33 |
| 1975/6 | 701 | 318 | 32 |
| 1976/7 | 675 | 343 | 34 |
| 1977/8 | 443 | 578 | 43 |
| 1978/9 | 336 | 762 | 40 |
| 1979/80 | 349 | 881 | 38 |
| 1980/1 | 393 | 927 | 36 |

Source: Annual Reports of the Wheat Board.

From 1941/2 to 1969/70 the financial year of the Wheat Board ran from November to October. From 1970/71 to the present it ran from October to September.

The 'standard loaf' was reduced in weight from 2 pounds to 29 ounces in May 1946 so that more bread could be manufactured with the limited meal available, thus ensuring a wider distribution. The 2 pound loaf (907 g.) was reintroduced in the 1948/9 season. From 1 October 1971 prices are expressed per 900g. loaf.

One metric ton = 2204,62 pounds.

ANNEXURE 2BREAD PRICES IN SOUTH AFRICA 1941/2 TO 1980/1

| | <u>White</u> | <u>Brown</u> | <u>Wholewheat</u> | <u>'Standard'</u> |
|---------|--------------|--------------|-------------------|-----------------------|
| 1941/2 | | | | 6d |
| 1942/3 | | | | 6d |
| 1943/4 | | | | 6½d |
| 1944/5 | | | | 6½d |
| 1945/6 | | | | 6½d |
| 1946/7 | 7½d | | | 6d |
| 1947/8 | 7d | 6½d | 6½d | - |
| 1948/9 | 7d | 6d | 6d | - |
| 1949/50 | 7½d | 6d | 6d | - |
| 1950/1 | 7½d | 6d | 6d | <u>Enriched bread</u> |
| 1951/2 | 8d | 6½d | 6½d | 6½d |
| 1952/3 | 9½d | 7d | 7d | 6½d |
| 1953/4 | 9½d | 7d | 7d | 6½d |
| 1954/5 | 9½d | 7d | 7d | 6½d |
| 1955/6 | 9½d | 7½d | 7½d | 7d |
| 1956/7 | 9½d | 7½d | 7½d | 7d |
| 1957/8 | 9½d | 7½d | 7½d | 7d |
| 1958/9 | 10d | 8d | 8d | 8d |
| 1959/60 | 10d | 8d | 8d | - |
| 1960/1 | 11d/9c | 9d/7½c | 9d/7½c | - |
| 1961/2 | 9c | 7½c | 7½c | |
| 1962/3 | 9c | 7½c | 7½c | |
| 1963/4 | 9c | 7½c | 7½c | |
| 1964/5 | 9c | 7½c | 7½c | |
| 1965/6 | 9c | 7½c | 7½c | |
| 1966/7 | 9c | 7½c | 7½c | |
| 1967/8 | 9c | 7½c | 7½c | |

ANNEXURE 2 Continued

| | <u>White</u> | <u>Brown</u> | <u>Wholewheat</u> |
|---------|--------------|--------------|-------------------|
| 1968/9 | 9½c | 8c | 8c |
| 1969/70 | 9½c | 8c | 8c |
| 1970/1 | 11c | 9c | 9c |
| 1971/2 | 11c | 9c | 9c |
| 1972/3 | 13c | 11c | 11c |
| 1973/4 | 13c | 11c | 11c |
| 1974/5 | 16c | 13c | 13c |
| 1975/6 | 20c | 16c | 16c |
| 1976/7 | 20c | 16c | 16c |
| 1977/8 | 25c | 16c | 16c |
| 1978/9 | 25c | 16c | 16c |
| 1979/80 | 25c | 16c | 16c |
| 1980/1 | 30c | 20c | 20c |

Source: Wheat Board Annual Reports.

The 'standard loaf' was manufactured only until 1946/7. From 1941/2 to 1946/7, white bread was manufactured only for military and civilian hospitals.

Enriched bread was introduced on 1 July 1952 and stopped at the end of September 1959.

Since more than 90% of all bread is purchased cash-over-the-counter, this is the best basis for comparison of prices - see Wheat Board Annual Report 1960/1 p.60.

Due to 'excessive capacity and overcompetition' it was felt by the Board in 1940/1 that registration would be necessary to rationalise the industry. Registration was commenced in the 1941/2 season, when for the first time quantities of bread manufactured and sold were published by the Board.

ANNEXURE 3

Amount of the bread subsidy in South Africa 1939/40 to 1980/1

| | Amount of sub- sidy, from Wheat Board | Amount of sub- sidy, from Abstract of Agricultural Statistics | Gross Domestic Product | Subsidy (Wheat Board) as a per- centage of GDP | Parliamentary Vote Expenditure | Subsidy (Wheat Board) as a percentage of GDP |
|---------|---|---|---------------------------|--|-----------------------------------|---|
| | Rm | Rm | Rm | Rm | Rm | |
| 1939/40 | 0,3462 | - | 987 | 0,035 | 89,266 | 0,39 |
| 1940/41 | 0,7870 | - | 1115 | 0,071 | 126,782 | 0,62 |
| 1941/2 | 2,8340 | - | 1236 | 0,229 | 148,020 | 1,91 |
| 1942/3 | 2,4840 | - | 1322 | 0,188 | 186,532 | 1,33 |
| 1943/4 | 3,100 | - | 1402 | 0,221 | 218,674 | 1,42 |
| 1944/5 | 2,594 | - | 1515 | 0,171 | 229,476 | 1,13 |
| 1945/6 | 5,670 | - | 1637 | 0,346 | 262,718 | 2,16 |
| 1946/7 | 4,182 | - | 1812 | 0,231 | 260,264 | 1,61 |
| 1947/8 | 8,380 | - | 2005 | 0,418 | 240,566 | 3,48 |
| 1948/9 | 13,604 | - | 2179 | 0,624 | 272,032 | 5,00 |
| 1949/50 | 8,824 | 9,0 | 2549 | 0,346 | 288,948 | 3,05 |
| 1950/1 | 15,839 | 13,3 | 2772 | 0,571 | 309,136 | 5,12 |
| 1951/2 | 17,415 | 14,3 | 2976 | 0,585 | 384,828 | 4,53 |
| 1952/3 | 16,346 | 18,8 | 3373 | 0,485 | 418,226 | 3,91 |
| 1953/4 | 14,635 | 15,0 | 3624 | 0,404 | 438,406 | 3,34 |
| 1954/5 | 16,810 | 15,3 | 3819 | 0,440 | 495,998 | 3,39 |
| 1955/6 | 14,739 | 14,4 | 4123 | 0,357 | 470,032 | 3,14 |
| 1956/7 | 14,034 | 15,1 | 4342 | 0,323 | 514,168 | 2,73 |
| 1957/8 | 14,702 | 13,9 | 4445 | 0,331 | 526,826 | 2,79 |
| 1958/9 | 11,818 | 14,0 | 4694 | 0,252 | 546,776 | 2,16 |

ANNEXURE 3 Continued

| | Amount of sub- sidy, from Wheat Board | Amount of sub- sidy, from Abstract of Agricultural Statistics | Gross Domestic Product | Subsidy (Wheat Board) as a per- centage of GDP | Parliamentary Vote expenditure | Subsidy (Wheat Board) as a percentage of GDP |
|---------|---|---|---------------------------|--|-----------------------------------|---|
| | Rm | Rm | Rm | Rm | Rm | |
| 1959/60 | 14,059 | 13,0 | 4983 | 0,282 | 583,904 | 2,41 |
| 1960/1 | 8,535 | 12,8 | 5280 | 0,162 | 636,331 | 1,34 |
| 1961/2 | 12,413 | 10,6 | 5631 | 0,220 | 702,413 | 1,77 |
| 1962/3 | 13,622 | 13,1 | 6261 | 0,218 | 786,995 | 1,73 |
| 1963/4 | 13,058 | 12,5 | 6872 | 0,190 | 839,208 | 1,56 |
| 1964/5 | 16,691 | 13,6 | 7540 | 0,221 | 978,183 | 1,71 |
| 1965/6 | 13,941 | 17,1 | 8206 | 0,170 | 1045,957 | 1,33 |
| 1966/7 | 18,292 | 20,1 | 9173 | 0,199 | 1211,630 | 1,51 |
| 1967/8 | 29,482 | 25,8 | 9884 | 0,298 | 1375,572 | 2,14 |
| 1968/9 | 21,167 | 25,1 | 10999 | 0,192 | 1399,130 | 1,51 |
| 1969/70 | 27,567 | 22,4 | 11995 | 0,230 | 1656,989 | 1,66 |
| 1970/1 | 25,389 | 28,9 | 13251 | 0,192 | 1856,286 | 1,37 |
| 1971/2 | 32,972 | 29,5 | 15023 | 0,219 | 2467,276 | 1,34 |
| 1972/3 | 33,462 | 40,3 | 18678 | 0,179 | 2719,728 | 1,23 |
| 1973/4 | 41,087 | 26,8 | 23055 | 0,178 | 3338,974 | 1,23 |
| 1974/5 | 46,615 | 44,6 | 25731 | 0,181 | 4220,143 | 1,10 |
| 1975/6 | 80,132 | 61,6 | 29143 | 0,275 | 4983,075 | 1,61 |
| 1976/7 | 56,780 | 67,3 | 32728 | 0,173 | 5150,633 | 1,10 |
| 1977/8 | 58,208 | 65,4 | 37222 | 0,156 | 5493,814 | 1,06 |
| 1978/9 | - | 57,4 | 44575 | 0,129 | 5899,738 | 0,97 |
| 1979/80 | - | 116,4 | 57817 | 0,201 | 6954,577 | 1,67 |
| 1980/1 | - | 162,1 | 65531 | 0,247 | 8635,946 | 1,88 |

ANNEXURE 3 Continued

E figures before 1961 were doubled to obtain the R equivalent. Parliamentary Vote Expenditure was taken from the Report of the Controller and Auditor-General: Part II: Summary of expenditure from State Revenue Account (Excluding the South West Africa account). From these figures were excluded all Fixed Statutory Appropriations and all Standing Appropriations, to ensure commensurability and to reduce complexity. Moreover, from the figures of 1976/7 to 1980/1, the 'Finance' or 'Treasury' figure was excluded, as it is excluded in all data up to 1976. The financial year ends 31 March.

GDP figures were taken from South African Statistics 1980: 'Gross domestic product at factor prices'. It was assumed that the year was January to December since there were no footnotes in South African Statistics. However their source is the South African Reserve Bank Quarterly Bulletin, where in 1982 on page S-82 there is a footnote 'Figures at end of period' for financing rates. It was further felt that since different financial years end at different times the only meaningful guide would be January to December.

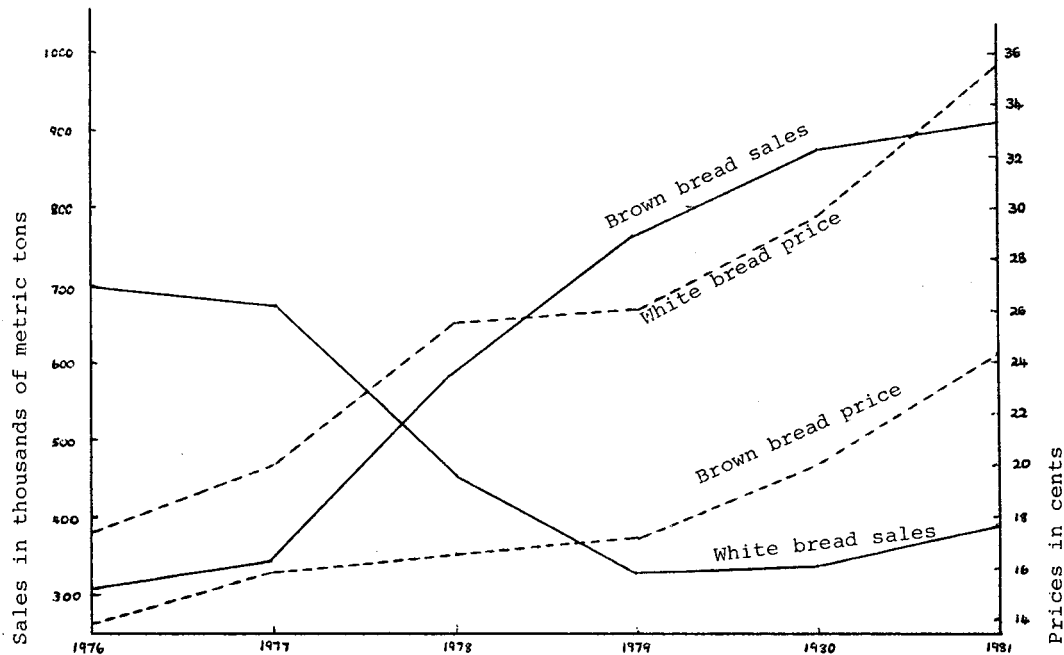
For the years 1978/9 to 1980/1, figures of the amount of subsidy were taken from the Abstract of Agricultural Statistics to find percentages of GDP and budget.

In 1941/2 the government and the Board paid subsidies to producers, millers and bakers. In subsequent years the subsidy was paid either to producers, to millers, to bakers or to all three groups. In some years subsidies were paid on wheat imports. From 2 May 1977 the subsidy was paid to bakers only.

Subsidy figures from the Wheat Board differ from the Abstract of Agricultural Statistics figures because the financial year of the latter is April to March while that of the former is October to September.

Figure 1

Sales and prices of bread in South Africa, 1976-1981



Source: Sales from Wheat Board Annual Reports.

Prices from South African Statistics 1982. These figures differ slightly from the Wheat Board figures since they are weighted averages taking into account the time of the price changes and the introduction of sales tax.