

## South African political economy

### Martin Legassick

“Why is the country not embarking on a large-scale socialist programme to mobilize young people, in order to build roads and schools and plant fields? ‘Forget it’ says the media manager. ‘The government dare not be seen as socialists, or the West will crap in its pants.’ ‘I am actually sick of being held to ransom by the West,’ grumbles the *mfundisi*. ‘Do this, do that. What has all this free-market stuff brought us? They don’t give up a thing, not tariffs, not lifestyle, yet we have to be more capitalist than Wall Street.’

Antjie Krog in the Transkei, *A change of tongue*<sup>1</sup>

There has been an enormous transformation of the South African state from a white-controlled and staffed apartheid repressive monster to a state with a democratic parliament and an extremely democratic constitution (at least on paper) which guarantees basic freedoms. The ANC was elected to govern with a majority of more than 60% in 1994 and has increased its apparent share of the vote at two subsequent elections (1999, 2004) to some 70% – though the percentage of the population voting in the elections has consistently diminished so that in 2004 only 38% voted for the ANC.<sup>2</sup> But the mass of people elected the ANC into government not for the sake of having members of parliament, but in order to improve their lives. ANC election propaganda has recognized this, promising (1994 onwards) “a better life for all”, and (in 2004) to “create jobs and fight poverty”. But does the ANC have a policy and programme which is adequate to the task?

The bosses’ guru Raymond Parsons reasserted recently that “rapid growth and transformation in SA are possible only with a market-related economy” – that is, a capitalist economy.<sup>3</sup> The negotiated settlement drew the ANC, in government, into compromise with capitalism. Since 1994, the ANC government has promoted the capitalist economy. ‘There is no other way’ the ideologists of the ANC proclaimed when they introduced GEAR in 1996, echoing right-wing

---

<sup>1</sup> (Johannesburg: Random House, 2003)

<sup>2</sup> In the 1994 elections only 56 percent (15 806 380) of all eligible voters (27 438 897) cast their ballots; just under 7 million people eligible to vote, did not even bother to register; of those registered to vote (20 600 000), nearly 5 million chose not to exercise their vote; just 38 percent (10 877 302) of the entire voting population voted for the ANC; there were 250 871 spoilt votes; the national voting turnout has gradually decreased since South Africa’s first, one-person one-vote elections. In 1994, 19,5 million people voted; in 1999 just over 16 million voted; and in 2004, under 16 million (remembering that the country’s voting population has grown substantially over the last decade. See Dale McKinley ‘New Power to the People’, [radicalcommunities@yahoo.com](mailto:radicalcommunities@yahoo.com), 16/5/2004.

<sup>3</sup> *Business Day*, 12/5/2005. He added: “provided the hand of the ‘development state’ is not too heavy, especially for small and emerging business.”

Tory Prime Minister Margaret Thatcher in Britain in the 1980s. But GEAR has been a vicious neo-liberal economic programme equivalent to the SAP's of the International Monetary Fund and World Bank, attacking the living standards of the working class.

The ANC leaders introduced GEAR with the claim that it would speed up economic growth. But what is the record? Growth has been sluggish – averaging 2,4% a year between 1996 and 2000 and 2,7% a year between 1994 and 2003, compared with the target set by the government in 1996 of an average 4,2% rising to 6% by 2000.<sup>4</sup> The chief director of economic policy in the President's office himself describes this rate of growth as "pedestrian".<sup>5</sup> The government itself stated in 1996 that a rate of growth of 3% a year would not be able to reverse rising unemployment, nor be able to expand social service delivery adequately, nor yield sufficient progress towards an equitable distribution of income and wealth."<sup>6</sup> And so it has proved.

The ANC managers of the economy have been congratulating themselves on their achievements. But what has been the record of delivery since 1994? Overwhelming evidence shows that since 1994 the unemployed have *increased* in numbers, that the gap between those at the top and the bottom of society has *widened*, that impoverishment has *increased*, and that social problems have *increased* in scale. (see chapter 14)

The government disputes this evidence. I myself went through the experience in early 2004 of attending first a conference of the Africa Institute at which Joel Netzhitenze claimed that 2 million jobs had been created since 1994, and only weeks later a meeting at which Western Cape COSATU regional secretary Tony Ehrenreich asserted that since 1994 1 million jobs had been lost. The evidence is confusing in fact, on jobs, on inequality, on delivery in general. Government agencies such as Stats SA and the Reserve Bank are constantly 'revising' the figures – always in the direction of creating a more favourable impression. Perhaps the first occasion was when in 2000 the Reserve Bank revised the Gross Domestic Product (GDP) figures for 1998 upwards by 17,9%, and 'adjusted' the GDP figures back to 1992. As a result a recession (negative growth) in 1998 was wiped out, and "real per capita GDP figures, which had been showing a continuous decline throughout the decade, now showed a rise from when the ANC government took office in 1994." The reasons given were the need to include the 'informal economy', although, as Bond points out, the

---

<sup>4</sup> S. Terreblanche, *A history of inequality in South Africa, 1652-2002* (Pietermaritzburg: UKZN Press, 2002) p. 117; Stephen Gelb, "An overview of the SA economy", J. Daniel, R. Southall, J. Lutchman (eds), *State of the Nation: South Africa 2004-5*, (HSRC Press, 2005), p. 367. For caveats at GDP as an indicator of economic well-being see P. Bond, "From racial to class apartheid: a critical appraisal of SA's transition" Paper to AIDC's 10 years of democracy conference, 27 November 2004.

<sup>5</sup> Alan Hirsch, *Season of Hope*, (Pietermaritzburg: UKZN Press, 2005), p. 237

<sup>6</sup> Growth, Employment and Redistribution (GEAR) policy: edited version in *Business Report*, 18/6/1996

correction was not carried through consistently.<sup>7</sup> Straightening out the confusions, removing from the figures the spin given by the government spin-doctors, leads to the same conclusion that most ordinary people have experienced: *that the rich are getting richer and the poor are getting poorer.*

Recently they have again revised the statistics (upwards) on GDP between 2002 and 2005. It is now claimed that in 2002 the economy grew by 3,7% (rather than 3,6%), in 2003 by 3% (rather than 2,8%) and in 2004 by 4,5% (rather than 3,7%). In 2005 the figures have also been revised upwards, from 3,5% to 4,6% for the 1<sup>st</sup> quarter and from 4,8% to 5,4% for the second quarter, leading to a predicted growth for 2005 of 5,1% as opposed to the original government estimate of 4,3%.<sup>8</sup> In addition, the government has announced a new plan – the Accelerated and Shared Growth Initiative for South Africa (ASGI) – this time to achieve 6% growth by 2010. But what confidence can be placed in this plan? Rather the experience that is likely to be confirmed again and again in our country – as around the world – while the capitalist system continues, is that the government does not and cannot deliver its promises. The real question raised by an understanding of the dynamics of the economy is: how can capitalism be ended?

The evolution of capitalism in South Africa – in particular the development of secondary manufacturing industry -- had already created by the 1970s an enormous and militant black working class whose opposition to apartheid and capitalism constituted the major challenge to the system. Today apartheid has been ended. Yet neither national nor social liberation has been achieved. The working class, organized predominantly within COSATU, holds the key to the future in its hands. At the head of all the oppressed – the unemployed, young and old, women and men, in countryside and town, as well as drawing to its side a middle class exploited and oppressed by the banks and monopolies – and with a programme to solve the social and democratic tasks – it could easily defeat the ANC and win power. Is its leadership however up to the task?

### **SA's accumulation crisis**

South Africa was formed through colonial conquest, by first the mercantile Dutch East India Company from the mid-seventeenth century followed by the British from the early nineteenth century. From that time on colonialism resulted in racism, slavery, attempted genocide, the expropriation of the land of indigenous people and the exploitation of their labour as forced labour. Here lie the roots of national oppression.

---

<sup>7</sup> S. Jones and J. Inggs "The SA economy in the 1990s" in Special Issue of the *SA Journal of Economic History*, 18,1-2, September 2003, pp. 4-5; P. Bond, "From racial to class apartheid". See also *Business Day*, 22/6/1999; *Sunday Independent*, 27/6/1999; *Sunday Times Business Times*, 27/6/1999

<sup>8</sup> *Business Day*, 30/11/2005; *Business Report*, 30/11/2005

Full-blooded capitalism developed late in South Africa in comparison with Europe and the United States.<sup>9</sup> The real impact of capitalism came only with the discovery of gold and diamonds, in the mineral revolution at the end of the nineteenth century, as the world economy was undergoing the transition to imperialism. Diamond and gold mines required large amounts of cheap labour. They used the pre-existing structures of colonialism and racism and transformed them into structures of segregation to generate this supply as cheap black migrant labour, supervised by racially privileged white workers. The ideology and structures of segregation prepared the way for the ideology and structures of apartheid. Segregation and apartheid, therefore, served the interests of capitalism rather than merely the ideology of Afrikaner nationalism. These arguments were developed initially against the arguments of liberalism, that capitalist development was inherently in conflict with apartheid.<sup>10</sup>

From the mid-1920s South African capitalism followed a Latin-American style inward-industrialisation (tariff-protected import-substitution) strategy, strongly state-supported, which until the 1960s produced strong economic and employment growth in labour-intensive consumer goods industries, though on the continued basis of cheap black labour.<sup>11</sup> According to Fine and Rustomjee, however, particularly since 1945 industrialisation was based on forward linkages from mining and energy (eg electricity-from-coal) into such sectors as steel and chemicals, rather than backwards from consumer goods.<sup>12</sup> Government commissions from the early 1970s identified the exhaustion of the strategy of import-substitution, because of the limits of the racially-structured market, and *crisis* began to develop in the South African economy.<sup>13</sup> Economic growth, which had averaged 6% a year in the 1960s, slowed to average 1.9% from 1973 to 1984, 1.5% for the remainder of 1980s, and fell by 1.1 per cent in the early 1990s. Fixed

---

<sup>9</sup> The introduction of capitalist relations in agriculture is complex and controversial: see, for example, H. Bradford, "Highways, byways and culs-de-Sacs: the transition to agrarian capitalism in revisionist South African history" *Radical History Review*, 46-7, Winter 1990; T. Keegan, *Colonial South Africa and the origins of the racial order* (Cape Town: David Philip, 1996).

<sup>10</sup> Though I did not originate these arguments, my work in the 1970s assisted in making them academically respectable: see M. Legassick, "South Africa; Capital Accumulation and Violence", *Economy and Society*, III, 3, 1974, pp. 253-91; M. Legassick, "Legislation, Ideology and Economy in post-1948 South Africa", *Journal of Southern African Studies*, I, 1, October 1974, pp. 5-35; M. Legassick, "South Africa: Forced Labour, Industrialisation and Racial Differentiation", in *The Political Economy of Africa*, ed. R. Harris, (Boston: Schenkman, 1975);

<sup>11</sup> For different segments of white workers, with differing interests, see for example J. Lewis, . For the labour policies of the Nationalist Government see especially D. Hindson, *Pass controls and the urban African proletariat in South Africa* (Johannesburg: 1987); D. Posel, *The making of apartheid, 1948-1961: conflict and compromise* (Oxford: Clarendon, 1991)

<sup>12</sup> B. Fine and Z. Rustomjee, *The Political Economy of South Africa*, (London: Hurst, 1996), pp. 157-160, 182-5, 218ff

<sup>13</sup> See RP 69/1972 *Reports of the Commission of Inquiry into the Export Trade of the Republic of South Africa* (Reynders Commission), Vols I and II, Government Printer, Pretoria, 1972 [Kleu Commission]

investment fell by 18,6% in 1986 and stayed negative from 1990 to 1993. Plant capacity utilisation fell to 78% in 1993. Unemployment rose – from about 12% in 1970 to 25% in the early 1990s. That the crisis was fundamentally economic – a crisis of profitability -- and not merely political – fear of mass revolt -- is shown by the fact that even *before* the Soweto uprising foreign capital was flowing outwards.<sup>14</sup>

In fact the extent of ‘national capitalist development’ that had already taken place in South Africa was exceptional for a late-developing capitalist country. Inward industrialization was possible because South Africa’s of mineral and agricultural exports. The principal export until the 1980s was gold, whose production continued to depend on the racially-imposed cheap labour system. In 1910, South Africa’s new deep-level gold mines produced one third of the world’s production, and as recently as 1980 South African gold accounted for more than 70% of world production, and comprised some 50% of exports. Exports could pay for the imports of needed machinery (means of production). However there was a tendency to a deficit in the balance of trade (and what is called the current account of the balance of payments), which was made good by inflows of foreign capital, particularly in the 1960s.

Trotsky’s theory of permanent revolution (see chapter 3) asserts that late-developing capitalist societies are subject to combined and uneven economic development, and cannot ‘catch up’ with the first-developing capitalist societies. In addition he argued that in late developing capitalist societies all the burdens of the past are not solved by capitalism, but become attached to capitalism and worsened by it. In South Africa since colonial occupation, race has been the main form of division and oppression in society, and in the twentieth century it has been used to promote the profitability of capitalism. The extent of South Africa’s ‘national capitalist’ development was made possible by the intensification of national oppression, and the worsening of the land question.<sup>15</sup>

Today for many poor blacks, despite an ANC government, race and not class is still seen as the main division in society. And it is. National oppression will not be ended until capitalism is ended.<sup>16</sup> This is why the SACP can get away

---

<sup>14</sup> Figures from H. Marais, *South Africa, limits to change: the political economy of transformation* (London: Zed books, 1998), pp. 30-3, 100

<sup>15</sup> These points are developed in Inqaba ya basebenzi, *South Africa’s Impending Socialist Revolution*, (London: 1982)

<sup>16</sup> On this question see, for example, M. Legassick, “COSATU needs to break away from ANC to win support of those trapped by capitalism”, *Cape Times*, 29/8/2001: “Present-day capitalism means that... more than one-third of South Africans are unemployed. The legacy of racism means that the burden of unemployment falls mainly on black people. Unemployment breeds crime. Black unemployment breeds black crime and encourages whites to identify all blacks as criminals. On the other hand, unemployment creates squalor. Black unemployment creates black squalor and encourages blacks to hate all whites as privileged and rich... Thus, while capitalism exists and continues to generate joblessness, racism will be reinforced.” See also Mandisi Majavu majavums@gmail.com, to [in.the.zone] Whiteleft/Race Matters, 9 Feb 2006, “To understand the

with presenting this as still the *stage* of the ‘national democratic revolution’ (with a struggle for workers’ democracy not really on the agenda) – because they are right in a certain sense, but they fail to put forward the conclusion confirmed by the Russian revolution – that only the working class can solve the democratic problems of society, including the national question.

As both William Martin and Patrick Bond have pointed out, the most rapid economic growth in South Africa took place in the 1930s and 1940s, when the events associated with the world depression lifted the chains of imperialism somewhat from the country – thus lessening its dependence. For Bond it was “the post-war reintegration of South Africa into international capitalist circuits which fostered the crisis conditions that are so overwhelming today”.<sup>17</sup>

As already mentioned in chapter 1, the elements of the crisis had been identified by Marxists by the late 1970s. Rooted in the relation of the SA economy to the global capitalist market, and expressed as a chronic crisis in the balance of payments, it was a manifestation of the relations between different departments of production. It was a crisis of over-production, rooted in the incapacity of the (cheap-labour-based) apartheid economy to provide a market for expanding manufactures, and the inability of SA manufacturing to break through into the world market because of the problems of economies of scale, intensified by the downturn in the world economy from 1974. Earnings from manufactured exports were needed to fill out the earnings from mineral and agricultural exports (particularly as, with the breakdown of the Bretton Woods agreements) the gold price became unstable. The failure to achieve this led to a fall-off of new foreign investment, worsening the balance of payments crisis. A vicious cycle developed, barely eased by spasmodic increases in the gold price, such as in 1980-81.<sup>18</sup> This explanation, its core put forward by Simon Clarke in an argument against the South African Poulantzians, was developed and rounded out by the Marxist Workers’ Tendency of the ANC in the 1980s.<sup>19</sup>

---

social arrangement of our society, one needs to take cognizance of the fact that the South African economy is heavily monopolised by a small group of banks, mining houses and holding groups which are able to exert influence on the political direction of the country. The control of these banks and mining houses is [overwhelmingly] in the hands of white men.... Even with these facts in the public domain, the white left never tires of instructing poor blacks to stop talking about race issues, but, rather, to put a major emphasis on class in their discourse. The irony is that the economy compels any honest person to talk of class, and, in the same breath, address the issue of race.”

<sup>17</sup> P. Bond, *Cities of gold, townships of coal: essays on SA’s new urban crisis*, (Trenton, New Jersey: Africa World Press, 1999), p. 237 from W. Martin, “From NIC to NUC: SA’s semi-peripheral regimes” in W. J. Martin (ed), *Semiperipheral states in the world economy* (New York: Greenwood Press, 1990)

<sup>18</sup> On January 21 1980 gold hit its highest dollar price ever, \$846,50 an ounce (then R695, 23 an ounce): see *Cape Times*, 7/7/1999.

<sup>19</sup> S. Clarke, “Capital, Fractions of Capital and the State: Neo Marxian analysis of the South African State”, *Capital and Class*, 5, 1978. Dave Hemson and myself, to become members of the MWT of the ANC, were at the University of Warwick at the time and discussed this argument

In the early 1990s Bond redeveloped Clarke's arguments into a similar explanation of the crisis in terms of over-accumulation, which he argued had begun in the late 1960s. The root cause was excessive production of consumer goods locally (textiles, chemicals, rubber, motor vehicles) and the inability of local producers of manufactures to export profitably. "Too many goods are produced, workers are replaced by machines, and competition between capitalists becomes ruinous... a situation in which goods cannot be brought to market profitably, leaving capital to pile up without being put into new productive investment... unused plant and equipment; huge gluts of unsold commodities; an unusually large number of unemployed workers; and the rise of speculation in shares and real estate." Excessive automation in the 1970s led to loss of jobs. The consequence was a decline in economic growth and a drought of new investment through the 1970s and 1980s.<sup>20</sup> As subsequently summarised by Bond, the crisis conditions included: "a near-exhausted raw materials export sector; an overproductive luxury goods sector hosting overprotected local monopoly capital and multinational corporations; an inadequate capital goods sector; and a hopelessly under-resourced basic needs sector. As in many semi-

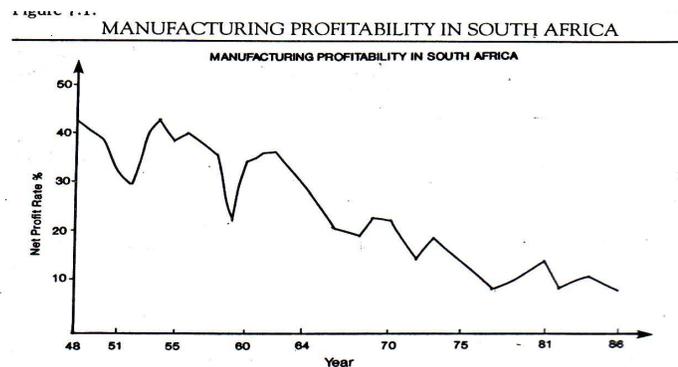
---

extensively with Clarke. Discussion of the crisis was also included in the SACTU General Secretary, John Gaetsewe's, report to the 1977 SACTU NEC meeting, subsequently published as *Looking Forward: SACTU's view of the political situation, and the tasks facing the workers' movement in South Africa* (London: SACTU, 1977), the first time this had been discussed in a liberation movement publication. As a result of objections by the Stalinist SACP, however, this publication was subsequently withdrawn from circulation and locked away in a cupboard! Particularly Robert Petersen, but also Paula Ensor, Dave Hemson, and myself had assisted in the draft of *Looking Forward*. We were suspended from the ANC in 1979 and expelled from it in 1985 essentially for 'organising a socialist faction.' Marxist ideas continued to be presented in publications of the Marxist Workers' Tendency of the ANC such as *South Africa's impending socialist revolution* (1982); P. Storey [R. Petersen], "South African perspectives – workers' revolution or racial civil war", supplement to *Inqaba ya basebenzi*, 16/17, January-June 1985; "South Africa's socialist revolution has begun", November 1986, supplement to *Inqaba ya basebenzi*, 20/1, September 1986. The Poulantzian 'fractions of capital' argument was, in contrast, slow to identify a crisis in South African capitalism. In 1981 and as late as 1983, for example, Kaplan criticised Clarke for believing that South African development was necessarily bound up with the expansion of manufacturing. While he recognised the turn to increase foreign debt, he placed hopes in the (temporarily) high price of gold to fuel development. South Africa's increasing credit-worthiness, he maintained, was due to "the gold-led boom of 1979-1980 and confidence in the state's ability to contain popular struggles both through repression and through reformist strategies": D. Kaplan, "SA's changing place in the world economy" *SA Review 1: same foundations, new facades*, (Braamfontein: Ravan, 1983) p. 165. See also D. Kaplan, "The current upswing in the South African economy and the international capitalist crisis: a reinterpretation of South African 'development', *Work in Progress*, 16, February 1981. Kaplan's first written recognition of a 'crisis' appears to be in "Beyond the indicators: a perspective on the SA economy", *South African Review 4* (Braamfontein: Ravan, 1987).

<sup>20</sup> P. Bond, *Commanding Heights and community control: new economics for a new South Africa* (Johannesburg: Ravan, 1991), pp. 34-40. Bond also based himself on Charles Meth, (1990), "Productivity and the Economic Crisis in South Africa," Research monograph, 1990, Durban, University of Natal Economic Research Unit.

peripheral countries, import-substitution industrialization was geared to the desires of the local bourgeoisie and ended up generating serious balance of payments tensions. Under such structural conditions, as rising levels of class struggle combined with local processes of uneven development, an accumulation crisis surfaced during the 1970s and became acute during the late 1980s." South Africa's "abundant mineral resource endowment ... promoted a lotus-eating effect – that is, it was easier to import producer goods than make them locally."<sup>21</sup>

In an unavailing attempt to resolve the crisis, the state stepped up its investment, with a dramatic increase in foreign borrowing for parastatals such as the 'strategic' SASOL (oil-from-coal), ISCOR, ESKOM, etc. Basic chemicals and basic metals accounted for two-thirds of investment between 1972 and 1990, with MOSSGAS and SASOL accounting for about 50% of the growth in manufacturing investment, and roads, dams, railways, nuclear power and arms production accounting for the rest. Because of negative real interest-rates and accelerated depreciation allowances, *inter alia*, this investment was extremely capital-intensive. The manufacturing sector, for example, was producing 40% less output per unit of capital in 2001 than it was in 1960. Natrass argues that the state had a choice of extending inward industrialization in this way, or of opting from the early 1970s for a more outward-oriented export strategy (on the model of the East Asian tigers), but the pattern of accumulation was already long and well-established.<sup>22</sup>



From N. Natrass, "Economic power and profits in post-war manufacturing" in N. Natrass and E. Ardington (eds), *The Political economy of South Africa* (Cape Town: OUP, 1990), p. 108

In the 1980s the state began to reverse course on state investment and embarked on a privatization programme, leading to the privatization of ISCOR and SASOL late in the decade. Having attempted to liberalise exchange control regulations, the state was forced in 1985 into a financial freeze and a

<sup>21</sup> Bond, *Cities of Gold*, p. 237. See also *ibid*, p. 220; Bond, *Elite Transition: from apartheid to neoliberalism in South Africa* (Pietermaritzburg: University of Natal Press, 2000), pp. 15-24

<sup>22</sup> M. Altman, "The state of employment and unemployment in SA", p175; N. Natrass, "The state of the economy: a crisis of employment", pp. 144-6 in J. Daniel, A. Habib and R. Southall, (eds), *State of the Nation: South Africa 2003-4*, (HSCR, 2004); Hirsch, *Season of Hope*, pp. 139-140

rescheduling of foreign debt. US banks, perturbed by the revolutionary upsurge in the country, refused to roll over their loans. It was the prelude to the worst period for the South African economy, with high interest rates failing to stem a drain of big capital (foreign and local) from the country. There was negative per capita growth; a negative growth rate of productive investment; and an absolute decline in the value of capital stock, especially in manufacturing. "Over-accumulated capital was placed in the JSE, real estate and various other financial markets, rather than in new productive plant and investment." – and the result was "volatile and vastly overvalued stock market, inordinate corporate and consumer debt, hugely overbuilt commercial property markets"<sup>23</sup>

The South African economy, from the time of gold-mining and the domination of a few big mining houses (Wernher-Beit, Rhodes' Consolidated Gold Fields, Albu's General Mining, Goerz and Co, etc) had always had tendencies to monopoly. In the 1960s the mining houses extended their control over manufacturing industry, and in the 1980s they and the big insurance companies took over the interests of foreign companies who pulled out. Thus by 1992 six companies accounted for 85,7% of the market valuation of the Johannesburg Stock Exchange: Anglo American Corporation had 33,7%, Sanlam had 15,6%; Rembrandt had 14,6%; SA Mutual had 14,2%; Liberty Life had 4,7% and Anglovaal had 2,9%.<sup>24</sup>

### Regulation theory and its problems<sup>25</sup>

Similar conclusions – of a *crisis* -- had been reached earlier, in 1981, by John Saul and Stephen Gelb in their path-breaking book, *The Crisis in South Africa*, though these were phrased more in terms of under-consumption, and

---

<sup>23</sup> See, for example, Bond, *Commanding Heights*, pp. 40-48; *Cities of Gold*, chapter 7. Also *Elite Transition*, p. 50

<sup>24</sup> See D. Lewis, "Markets, ownership and manufacturing performance" in A. Joffe, D. Kaplan, R. Kaplinsky and D. Lewis, *Improving manufacturing performance in South Africa: the report of the Industrial Strategy Project* (Cape Town: UCT Press, 1995), pp. 149, 176-185; D. Innes, *Anglo American and the rise of modern South Africa* (London: Heinemann, 1984)

<sup>25</sup> I deal with regulation theory here as the most serious 'alternative' explanation of the crisis. Other explanations are identified by Bond: "It is widely accepted that South Africa has experienced a structural slowdown in economic growth since around 1974, the exact causes of which are subject to debate. Business economists (e.g. Dickman, A. "The Economic Debate," Speech to the South African Institute of Management, Johannesburg, 7 August, 1990) typically attribute the crisis to government policies ranging from apartheid to ineffectual monetary and fiscal policy, and seek remedies in free markets and a non-interventionist state. Progressive economists point to increased labor militancy and wage struggles beginning in the early 1970s (Natrass, N. "Economic Power and Profits in Post-War Manufacturing," in N. Natrass and E. Ardington (Eds), *The Political Economy of South Africa*, (Cape Town, Oxford University Press, 1990)); the transmission of international crisis (Moll, T., "From Booster to Brake? Apartheid and Economic Growth in Comparative Perspective," in N. Natrass and E. Ardington (Eds), *The Political Economy of South Africa*, (Cape Town, Oxford University Press, 1990))": Bond, *Cities of Gold*, pp. 219. The more recently published Hirsch, *Season of Hope*, pp. 21-6 gives no serious consideration to the capital goods/ balance of payments problems.

with less attention to the relationship of South Africa to the world economy. Saul and Gelb pointed to such contradictions as the saturation of the white consumer market by the late 1960s, and the lack therefore of economies of scale, a structurally high rate of unemployment (with reference to work by myself and Harold Wolpe) and the shortages of skilled labour because of the job colour bar. They linked the onset of the crisis to the 1974 downturn in the world economy and to the Durban strikes of 1973. The ability of capitalism to resist the pressures of the crisis was, they argued, undermined by “growing inflation, skilled labor shortages, and balance of payments deficits”. They regarded the problems of inflation and the balance of payments, however as less serious than skilled labour shortages, the limits of the white consumer market and the high black unemployment rate.<sup>26</sup>

Gelb was to develop this analysis in the late 1980s on the basis of French regulation theory, and to identify the crisis as one of “racial Fordism”. This became the standpoint of the ‘Economic Trends’ group, policy-makers for COSATU. Fordism was the accumulation regime of the advanced capitalist countries based on assembly-line production for a mass market. ‘Racial Fordism’ was South Africa’s version of this – import-substitution industrialisation based predominantly on the white market. He placed more emphasis than in the 1981 book on the role of the balance of payments – as between mineral/agricultural exports and capital goods imports. The bottlenecks caused by the need for foreign exchange and the shortage of skilled labour were ‘reproductive’ rather than negative in that they limited the rise of the capital-labour and capital-output ratios. The economic crisis in the advanced capitalist countries in the early 1970s (collapse of the Bretton Woods system and the 1974 downturn) precipitated crisis in the South African economy. It meant (a) fluctuations in the gold price and (b) the price of machinery imports rising leading to inflation. The consequences were (a) destabilisation of the balance of payments and (b) rising inflation meant falling real interest rates, encouraging capital-intensive investment, eating into profits, and deepening the crisis. In addition, the rise in black wages consequent on the Durban strikes pushed up real unit labour costs.<sup>27</sup>

Bond, relying partly on Charles Meth, criticized Gelb’s analysis for (a) being under-consumptionist in the sense of maintaining that the problem could

---

<sup>26</sup> Saul and Gelb, *The crisis in South Africa: class defence, class revolution*, (New York: Monthly Review Press, 1981), pp. 17-28 and 1986 edition, p. 217. The best study of unemployment in the 1970s was C. Simkins, “Measuring and predicting unemployment in South Africa, 1960-1977” in C. Simkins and D. Clarke, *Structural unemployment in South Africa* (Pietermaritzburg: U of Natal Press, 1978); C. Simkins, “Structural unemployment revisited”, *SALDRU Fact Sheet*, No 1, (Cape Town: UCT, 1982), estimating unemployment rising to 20% in the 1970s.

<sup>27</sup> S. Gelb, “Making sense of the crisis” *Transformation*, 5, 1987, pp. 39-46; S. Gelb, “Democratising economic growth: crisis and alternative growth models” *Transformation*, 12, 1990, p. 27; S. Gelb, “South Africa’s economic crisis: an overview” in S. Gelb (ed), *South Africa’s Economic Crisis* (David Philip, 1991) pp. 13-28. Gelb’s arguments are reproduced by Marais, *Limits of change*, and M. Murray, *The Revolution deferred: the painful birth of post-apartheid South Africa* (London: Verso, 1994)

be solved by pumping money into the economy<sup>28</sup> and (b) identifying the “‘unreasonable’ (politically-motivated)” wage claims of the workers as a key cause of crisis, thus laying the blame for the crisis on those who were its victims. Thus Gelb, according to Meth, “allows capital to slide too easily off the hook.”<sup>29</sup> In addition Meth apparently regarded the rising cost of raw materials, rather than of machinery, as the means of transmission of the world economic crisis into the South African economy.<sup>30</sup> Gelb’s analysis, in addition, seems to involve a contradiction – blaming both low wages and wage rises for the crisis. Nor does Gelb explain clearly how the balance of payments can be seen as both a ‘reproductive’ factor and a crisis-inducing factor: racial Fordism’s “‘success’ in achieving growth brought its own problems, however.... the ability to expand production was increasingly tied to balance of payments considerations.”<sup>31</sup>

Clarke regarded regulation theory as having “very valuable” features, such as “drawing attention to the systematic character of the regulation of capital accumulation, relating the forms of regulation of capitalist production to the forms of regulation of accumulation by money and the state.” However, he continued, “the explanatory relationships proposed are very unclear, both theoretically and empirically... it is not at all clear that the different aspects of a particular ‘regime of accumulation’ can be so neatly tied together in a functional whole, nor that the directions of causality are as unambiguous as indicated in the model.” Its structural-functionalism “leads it considerably to over-emphasise the coherence and stability of the ‘regime of accumulation’ in a period of sustained accumulation, and to exaggerate its disintegration and instability in a period of

---

<sup>28</sup> However Bond qualifies this by recognizing that in the post-1987 elaboration of the theory Gelb anticipated that if a post-apartheid government redistributed income from rich to poor it would lead to inflation, eroding any real gains: Bond, *Community control*, p. 30. In addition Gelb wrote that “the origins of the decline in growth and the disintegration of the racial Fordist model are to be found in problems on the *supply-side of the SA economy – in the process of production*. It is only during the course of the crisis that *inadequate demand* became a factor.” (my emphasis): Gelb, “Democratising”, p. 29

<sup>29</sup> Bond, *Commanding Heights*, pp. 30-3; Bond, *Cities of gold*, pp. 219-220 citing Meth, 1990, pp. 32-33

<sup>30</sup> Bond, *Commanding Heights*, p. 33-34. However Gelb, “Democratising”, p. 27 mentions the rising cost of oil as well as of machinery.

<sup>31</sup> Gelb, “Democratising”, p. 27. Natrass writes that “it is of no help to divide the post-war political economy into periods in which apartheid provided the engine for growth and others in which the balance of costs and benefits was reversed... It is far more meaningful to conceptualise apartheid as simultaneously allowing for high profits and exacerbating (if not causing) the decline in profitability via the labour market and cost pressures generated by the system. There was never any honeymoon period for the marriage of apartheid and capitalism in terms of a *stable and reproducible growth path*. The roots of the 1980s economic crisis were manifesting themselves from the 1960s (if not before) in the form of falling profitability.” According to her calculations, however, the rate of profit fell from 44% in 1948 to 35,3% in 1960 to 27,2% in 1970 (still quite substantial!) and then to 9% in 1986. This corresponds with Bond’s identification of the start of the crisis in the 1960s. N. Natrass, “Economic power and profits in post-war manufacturing” in N. Natrass and E. Ardington (eds), *The political economy of SA*, (Cape Town: OUP, 1990), pp. 108, 115, 121

crisis". It had "no theory of money and the state as the dual forms of capitalist power, nor any conception of the contradictory character of capitalist regulation that derives from the contradictory form of capitalist production." Crisis "is seen only as a crisis of particular 'modes of regulation' of capital accumulation, resolvable by developing new forms, *rather than being seen as a crisis which expresses the contradictory form of accumulation itself.*"<sup>32</sup>

In 1981 Saul and Gelb wrote not just of economic crisis but of *organic* crisis: that economic crisis spilled over into political crisis (splits in the ruling class; development of mass opposition) and ideological crisis (a crisis of legitimacy). They quoted the Italian Marxist Gramsci from his *Prison Notebooks*: "A crisis occurs, sometimes lasting for decades. This exceptional duration means that incurable structural contradictions have revealed themselves (reached maturity), and that, despite this, the political forces which are struggling to conserve and defend the existing structure itself are making every effort to cure them, within certain limits, and to overcome them. These incessant and persistent efforts (since no social formation will ever admit that it has been superseded) form the terrain of the 'conjunctural' and it is upon this terrain that the forces of opposition organise."<sup>33</sup> It is well known that in his prison notebooks Gramsci was forced into extreme circumlocutions to evade censorship. Evidently here however he is describing the emergence of a revolutionary situation in which the 'supersession' of capitalism is possible. A similar and more well-known passage of Gramsci's on the same theme reads "The crisis consists precisely in the fact that the old is dying and the new cannot yet be born; in this interregnum a great variety of morbid symptoms appear."<sup>34</sup>

It is significant that Saul and Gelb omitted, however, the immediately following sentence of Gramsci's: "These forces [of opposition] seek to demonstrate that the necessary and sufficient conditions already exist to make possible, and hence imperative, the accomplishment of certain historical tasks" -- which, in Gramsci's circumlocutions meant that under those conditions the working class tries to make a social revolution.<sup>35</sup>

Adopting regulation theory, Gelb became more explicit. He regarded the various 'orthodox' Marxist explanations of capitalist crisis as limited because they implied that crisis was a terminal disease for capitalism, and fail to account for capitalism's continued survival through numerous crises.<sup>36</sup> Marais followed

---

<sup>32</sup> S. Clarke, *Keynesianism, monetarism and the crisis of the state* (Aldershot: Edward Elgar, 1988), p. 11 and more generally, pp. 7-11.

<sup>33</sup> A. Gramsci, *Selections from the prison notebooks* (London: Lawrence and Wishart, 1971), p. 178. Saul and Gelb, *The crisis in South Africa*, p. 3.

<sup>34</sup> Gramsci, *ibid*, p. 276

<sup>35</sup> Gramsci, *ibid*. Saul and Gelb take the quotation from Stuart Hall, "Moving Right", *Socialist Register*, 1981, pp. 3-4. Marais, *Limits of change*, p. 40 takes the same quote from Saul and Gelb. All three leave out the following sentence.

<sup>36</sup> Gelb, "Making sense", pp. 34-35. He lists three explanations of capitalist crisis: the tendency of the rate of profit to fall; overaccumulation of capital leading to a shrinking reserve army, causing

Gelb in this, caricaturing the “orthodox” Marxist definition of crisis: “a *terminal* breakdown of the system which *necessarily* inaugurates profound social transformation”<sup>37</sup> (my emphasis). Both Gelb and Marais insisted instead that an economic crisis “is thus seen more appropriately as a *turning point* in the form of capitalism rather than as a terminal disease. Its resolution is **as likely, or more so**, to involve a transformation *of* capitalism as a transformation *from* capitalism to a different mode of production.”<sup>38</sup> Or, again: “The popular connotation associated with ‘crisis’ is an idea of collapse or breakdown. But the original, more useful meaning of the term is ‘turning point’. In this sense a crisis in a capitalist economy implies that the system cannot continue to develop along the same path as before – it must ‘adapt or die’ as P. W. Botha eloquently expressed it more than a decade ago.”<sup>39</sup>

Why did they not stick with Gramsci’s Marxist approach to capitalist crisis, in which the *possibility* (not necessity) of social revolution exists, provided the working class can correctly organise its hegemony? A similar idea was expressed by Trotsky: “The strength of finance capital does not reside in its ability to establish a government of any kind and at any time, according to its wish... Its strength resides in the fact that every non-proletarian government is forced to serve finance capital; or better yet, that finance capital possesses the possibility of substituting for each one of its systems of domination that decays, another system corresponding better to the changed conditions. However *the passage from one system to another signifies the political crisis which, with the concurrence of the activity of the revolutionary proletariat, may be transformed into a social danger to the bourgeoisie.*” (My emphasis)<sup>40</sup>

Such a Gramscian/Trotskyist definition of crisis focusses attention on the subjective organisation of the working class as the key to whether social revolution is achieved out of organic crisis. This subjective organisation depends critically on the strategies and policies pursued by the leadership of the political parties in which the working class is organised. Only if the working class *fails* to make a revolution is the capitalist class able to impose its own solution.

Gelb explicitly repudiated such an approach. A telling review of the book that he edited as the leader of COSATU’s Economic Trends policy-making group,

---

rising wages and falling profits; and underconsumptionism and refers to Fine and Harris, *Rereading Capital*, 1979 and E.O. Wright, “Alternative perspectives in the Marxist theory of accumulation and crisis” in J. Schwartz, (ed), *The Subtle Anatomy of Capitalism*, 1977. Roman Rosdolsky, *The making of Marx’s ‘Capital’*, (London: Pluto Press, 1977) however gives a much more thorough background to Marx’s theory of crisis.

<sup>37</sup> Marais, *Limits of change*, p. 37

<sup>38</sup> Gelb, “Making sense”, pp. 35-36

<sup>39</sup> Gelb, “Democratising economic growth”, pp. 25-26. Also Gelb, *SA’s economic crisis*,

<sup>40</sup> L. Trotsky, “Bonapartism and Fascism” (15/7/1934) in L. Trotsky, *The Struggle Against Fascism in Germany*, (Penguin, 1975), p. 455. pp. 94-5M. Morris, “State, Capital and Growth” in Gelb, *SA’s economic crisis*, pp. 46, 48 gives similar quotations from N. Poulantzas, *The crisis of the dictatorships* (London: New Left Books, 1976), pp. 94-5

in 1991, *South Africa's economic crisis*, appeared in *Work in Progress*. It maintained that Economic Trends had become a "project to rescue capitalism". Capitalists, it maintained, would not invest under existing conditions because they could not make a profit, and poverty would continue until investment created new jobs and enriched existing jobs. "If the capitalists won't invest, then the State will have to take over and do the investing instead. Yes, that means nationalisation" – yet "in the entire book, the word socialism is mentioned only once. If nationalisation is mentioned at all, it escaped among the jargon and got clean away."<sup>41</sup> Gelb replied in an article titled "Capitalism: there is no alternative... for now", repeating his deterministic position that "South African capitalism is right now in the process of transforming itself, away from an excessive reliance on racially-defined institutions and structures; and... capitalism will survive its own transition so that socialism is not on South Africa's agenda for the next round... The real issue of the day, then, is what form South African capitalism will take in the next round."<sup>42</sup> As if any 'agency' – working-class action – could not have altered this 'structurally imposed' situation.

Such a crisis engulfed South African society in the 1980s. Its apparent resolution has been the institution of parliamentary democracy and the establishment of an ANC government, representing the majority in society. But has the establishment of the ANC government resolved the underlying economic crisis.?

### **The ANC's agreement with business**

On his first speech after release from prison in 1990, from the balcony of Cape Town City Hall, Mandela stated that "The nationalization of the mines, banks and monopoly industries is the policy of the ANC and a change or modification of our views in this regard is inconceivable."<sup>43</sup> Within two years, however, he was assuring businessmen in the United States that "the private sector must and will play the central and decisive role in the struggle to achieve many of [the transformation] objectives", and, soon after, that nationalization would have to be reconsidered since it was universally unpopular. Shortly after the 1994 elections, on May Day, Mandela gave an interview to the *Sunday Times* in which he could assert that ANC economic policies contained "not a single reference to nationalization" or anything "that will connect us with any Marxist ideology". By 1996, with the advent of the GEAR economic policy, he was asserting that "privatisation is the policy of the government."<sup>44</sup>

---

<sup>41</sup> Gracchus, "Regulating capitalism (in not so simple English)", *Work in Progress*, 75, June 1991, pp. 45-6.

<sup>42</sup> S. Gelb, "Capitalism: there is no alternative... for now", *Work in Progress*, 76, July-August 1991, pp. 42-3

<sup>43</sup> Quoted by Marais, *Limits of change*, p. 146 from *Sowetan* 5/3/1990

<sup>44</sup> Terreblanche, pp. 86, 92 citing Marais, *Limits of change*, 1<sup>st</sup> ed, pp. 95, 146; 2<sup>nd</sup> ed, 2001, p. 123. See also Terry Bell in *Business Report*, 27/5/2005; Hirsch, *Season of Hope*, pp 29-31, 41, 276 who

Many people were surprised by this apparent U-turn of the ANC leadership. But Mandela had long before reconciled the Freedom Charter's demand for nationalization with the continuation of capitalism. In 1956, soon after the adoption of the Charter at Kliptown, he wrote "in demanding the nationalization of the banks, the gold mines and the land the Charter strikes a fatal blow at the financial and gold-mining monopolies and farming interests that have for centuries plundered the country and condemned its people to servitude... *The breaking up and democratization of these monopolies will open up fresh fields for the development of a prosperous non-European bourgeois class. For the first time in the history of this country the non-European bourgeoisie will have the opportunity to own in their own name and right mines and factories, and trade and private enterprise will boom and flourish as never before.*"<sup>45</sup> (my emphasis) In fact, in a speech in 1992 disavowing nationalization, Mandela referred to this earlier article of his.<sup>46</sup> In versions of this article published while Mandela was in prison on Robben Island, however, the italicized passage was omitted – to give the impression that Mandela was more radical than he was.<sup>47</sup> (The same method, in reverse, has been applied since the time to Mandela's 1990 support of nationalization: it is difficult to find that speech reproduced anywhere).

I have explained in an earlier chapter the conditions which permitted the political compromise of the ANC leadership with the NP leadership of the South African state (see chapter 10). Along with this, by no means unwillingly, the ANC leaders jettisoned the left economic programme which had evolved in exile. In 1979, for example, the Politico-Military Strategy Commission to the ANC NEC had written that "The aims of our national democratic revolution will only be fully realized with the construction of a social order in which *all* the consequences of national oppression *and its foundation, economic exploitation, will be liquidated*, ensuring the achievement of real national liberation and real social emancipation, An uninterrupted advance towards this ultimate goal will only be achieved if... the dominant role is played by the oppressed working people."<sup>48</sup>

---

puts Mandela's change earlier, in early 1991; M. Kentridge, *Turning the Tanker: the economic debate in South Africa* (Centre for Policy Studies, Research Report 32, September 1993), p. 5; Murray, *Revolution deferred*, pp. 24-25. At the World Economic Forum in Davos in January 1992, Mandela gave a more moderate version (prepared by Tito Mboweni) on nationalization than his originally prepared and circulated speech: see Hirsch, *ibid*, for details

<sup>45</sup> N. Mandela, "Freedom in our lifetime", *Liberation*, June 1956, reprinted in T. Karis, G. Carter, and G. Gerhardt, *From protest to challenge: documents of African politics in South Africa, 1882-1964*, (Stanford: Hoover Institution, 1977), Volume III, pp. 245-250

<sup>46</sup> Hirsch, *Season of Hope*, pp. 34, 276

<sup>47</sup> See, for example, N. Mandela, *No easy walk to freedom* (ed. R. First) (New York: Basic Books, 1965), p. 57 and N. Mandela, *The struggle is my life* (London: International Defence and Aid Fund, 1978), p. 55.

<sup>48</sup> "Report of the Politico-Military Strategy Commission (the 'Green Book') to the ANC NEC, August 1979" reproduced in part in T. Karis and G. Gerhardt, *From Protest to Challenge: a documentary history of African politics in South Africa, 1882-1990* (Pretoria: UNISA press, 1997), p. 726. See also Murray, *Revolution deferred*, p. 18; Hirsch, *Season of Hope*, pp. 34-38

The restoration of capitalism in the Soviet Union, however, signalling to many activists the failure of “socialism”, contributed to the ease with which the ANC leadership abandoned nationalisation. In addition, many ANC cadres had experienced the economic problems of Mozambique in the 1970s and 1980s – where the FRELIMO bureaucracy had gone ultra-left and over-nationalised.<sup>49</sup> There was no understanding that, in both cases, it was Stalinism and not socialism that had failed. The ANC leaders were content to be wined, dined and influenced by the capitalist class, who, despite all they had gained from apartheid, now made themselves out to have been consistently anti-apartheid.<sup>50</sup>

In November 1993 the Transitional Executive Committee (TEC) accepted an \$850 million loan from the International Monetary Fund, in secret. As a condition of its acceptance, big business, the NP government, and leaders of the ANC signed a secret protocol on economic policy. It said, *inter alia*, that “An easing of [the strict] monetary policy would have risked a further undermining of [international] confidence and a resurgence of inflation... There is widespread understanding that increases in the government deficit would jeopardize the economic future of the country... [and that] given the importance of maintaining a competitive tax structure... [fiscal policy] will emphasise expenditure containment rather than rising taxes... Trade and industrial liberalization will be an important part of the restructuring of the economy.”<sup>51</sup> As Terreblanche writes, the protocol “reads like a curtain-raiser for the GEAR strategy announced two and a half years later”<sup>52</sup> The terms of the IMF loan included rapid scrapping of import surcharges, a drop in the budget deficit from 7 to 6% of GDP; demands for a drop in public sector real wages by 6% and decrease in wages across the board.<sup>53</sup> “This elite compromise” writes Terreblanche, “should be regarded as one of the most decisive ideological turning points in the ANC’s approach to economic issues. By agreeing to it, the ANC... agreed to an economic policy and system that would exclude the poorest half of the population from a ‘solution’ (ie

---

<sup>49</sup> R. Davies, “Nationalisation, socialization and the Freedom Charter”, *South African Labour Bulletin*, 12, 2, 1987 drew on the experience of Mozambique, and, according to Hirsch, *Season of Hope*, p. 44, influenced the ANC position on nationalization already in 1989. See also Murray, *Revolution deferred*, p. 22; Kentridge, *Turning the tanker*, p. 6. Alec Erwin, then education secretary of NUMSA, wanting in 1989 a “planned socialist alternative” based on a “democratically controlled economy which goes beyond simplistic notions of nationalization” was also clearly influenced by the failures of Stalinism: “Thoughts on a planned economy”, *Work in Progress*, 61, September-October 1989.

<sup>50</sup> See, for the wining and dining, P. Waldmeir, *Anatomy of a miracle: the end of apartheid and the birth of the new South Africa*, (London: Viking, 1997), p. 255. The latter point, regarding the hypocrisy of the capitalists, is well made by Terreblanche, *Inequality*, p. 101

<sup>51</sup> *Business Day*, 24/3/1994 reprinted in Terreblanche, *Inequality*, pp 96-7

<sup>52</sup> Terreblanche, *Inequality*, p. 97

<sup>53</sup> P. Bond, *Elite Transition: from apartheid to neoliberalism in South Africa* (Pietermaritzburg: UKZN press, 2000), p. 178ff

a 50 per cent solution) that was really aimed at resolving the corporate sector's long-standing accumulation crisis."<sup>54</sup>

Gelb, at the time a critic of neo-liberal policies, has in a more recent piece justified the agreement between big business and the ANC, on the basis that it was needed to secure inflows of foreign investment. The 'concession' by big business, he states, was to support the modification of the "racial structure of asset ownership" – ie to support black economic empowerment (BEE).<sup>55</sup> The ANC government, according to Terreblanche, a much more important concession: to relax exchange control so that the conglomerates could "escape into 'globalism' " – invest abroad in the world economy.<sup>56</sup> Thus big capital in South Africa would become a player on the global stage, with blacks co-opted into the capitalist class.

### **Economic Trends, the ISP, MERG, the RDP: swallowed by GEAR**

Much has been written about the "Great Economic Debate" that took place around and inside the ANC between 1990 and 1996 – the twists and turns are dealt with in critical accounts by Martin Murray, Hein Marais, Patrick Bond and Sampie Terreblanche.<sup>57</sup> Alan Hirsch, currently chief director of economic policy in the presidency, tells a different story, justifying the outcome in GEAR.<sup>58</sup> It is not necessary to repeat these blow by blow accounts. The story is essentially one of the failures of various alternative (social-democratic) economic policies to win acceptance by the ANC leadership (that of the Economic Trends Group, that of MERG, the social policies in the Base Document of the RDP) so that in the end the neo-liberal policy followed by the ANC leadership was no different from that put forward between 1990 and 1994 by the National Party.

As described by Gelb and Bond, the National Party's 'econocrats' in the early 1990s were putting forward a neo-liberal, privatizing, export-oriented growth strategy as a way of resolving the crisis. They maintained that in order to grow, South Africa must be open to the world economy, that there was not enough money in South Africa for grandiose social programmes, and that spending heavily on such programmes would fuel inflation. In the 1980s new Asian markets had absorbed South African coal, uranium, platinum, paper pulp, iron and steel, ferro-alloys, copper, nickel and diamonds and they hoped to add to this chemicals, paper and packaging, processed foodstuffs, cars, etc. The main export-emphasis would be "beneficiation of minerals and other commodities

---

<sup>54</sup> Terreblanche, p. 98; See also Marais, *Limits of change*, p. 104; Murray, *Revolution deferred*, p. 26; V. Padayachee, "Can the RDP survive the IMF? *Southern Africa Report*, Toronto, 9, 5, July 1994; Joseph Hanlon, "Can COSATU ride the IMF tiger?" *Work in progress*, 89, 1993.

<sup>55</sup> Gelb, "Overview of the SA economy", pp. 368-370

<sup>56</sup> Terreblanche, *Inequality*, p. 102

<sup>57</sup> Murray, *Revolution Deferred*, chapter 1; Hein Marais, *Limits of change*, chapters 5 and 6; Bond, *Elite Transition*, chapters 1-3; Terreblanche, *Inequality*, chapters 3 and 4

<sup>58</sup> Hirsch, *Season of Hope*

currently exported in a semi-processed form, together with other intermediate manufactures" (Gelb, 1990) They also promoted privatization of industry and deregulation of financial markets.<sup>59</sup> Gelb wrote of this strategy that it would "be likely to reinforce and extend a dualistic structure of society, as income inequality within the black population, and indeed overall inequality, would probably widen."<sup>60</sup>

The alternative to this was initiated by COSATU's Economic Trends research group (of university-based researchers) and was first broached at a workshop of some 60 people in Harare in March/April 1990 attended also by representatives of the ANC, the UDF, and COSATU.<sup>61</sup> This policy advocated "inward industrialization", the employment-generating development of labour-intensive consumer goods industries to serve the basic needs of South Africa's people, in food, clothing, furniture and/or housing, electricity, phones: "a first priority would be to meet basic needs for the population in food, housing, welfare and employment etc". The policy was termed "growth through redistribution" though Gelb was to emphasise that this meant "redistribution of investment not of consumption." The state was to play a 'leading role' (Harare document) or was to be 'the dominant actor in the economy'. The policy would involve some nationalization, though the economy would remain mixed. However (as Gelb pointed out in his 1990 article, pp. 38-39) since it was the country's conglomerates (monopolies) that provided the finance, to ensure its proper deployment would require an anti-trust policy: "For the 'redistribution of investment', the conglomerates cannot be left in their present form."<sup>62</sup>

This was scary stuff for big business. Though similar ideas were put forward in an ANC 'Discussion document on economic policy' in 1990 influenced by the Harare conference, Murray is misleading when he maintains that this was "the most important and substantial pronouncement on ANC economic thinking". As Hirsch makes clear, ANC economic policy was only in the process of being formed, and was formalized only at a May 1992 policy conference.<sup>63</sup> Such proposals came under extreme attack as irresponsible

---

<sup>59</sup> Gelb, "Democratising", p. 32ff; Bond, *Commanding heights*, pp. 51ff. See also Murray, *Revolution deferred*, pp. 17-18; Morris, "State, capital and growth" in Gelb, *SA's economic crisis*, pp. 53-58

<sup>60</sup> Gelb, "Democratising", p. 34. In demarcating neo-liberal and social-democratic 'resolutions' to the crisis, the Economic Trends group had by this time advanced considerably beyond Saul and Gelb's 1981 speculations on the ways capitalism might escape from the crisis: *The crisis in South Africa*, pp.25-28.

<sup>61</sup> The report is "Recommendations on post-apartheid economic policy" *Transformation*, 12, 1990, pp. 2-15. It is followed by comments by Alec Erwin, pp. 16-20 and by Dave Kaplan, pp. 21-24 and by Gelb, "Democratising" as well as an article by soon-to-be Industrial Strategy Project member Raphael Kaplinsky.

<sup>62</sup> "Recommendations"; Gelb, "Democratising"; Gelb, "SA's economic crisis". See Bond, *Commanding heights*, pp. 30-31; Marais, *Limits of change*, p. 146

<sup>63</sup> Murray, *Revolution deferred*, pp. 19-20, 22-3; Hirsch, *Season of Hope*, pp. 38-54. Also Marais, *Limits of change*, pp. 147-8; Kentridge, *Turning the tanker*, p. 6

“populism” which would lead to collapse and chaos, from pro-business academics and the pro-business media, and were also scorned in the rash of business-promoted “scenario planning exercises” which suddenly began to appear, as books, videos, and in newspaper supplements. “Their language was that of melodrama”, writes Marais, “laden with populist flippancies and cartoon-like metaphors.” Probably at the behest of the ANC’s Department of Economic Planning (headed by Trevor Manuel) the ideas of “growth through distribution” and of “nationalization” disappeared from ANC documents.<sup>64</sup>

The May 1992 conference of the ANC was associated with the document *Ready to Govern*. This contained no mention of “growth through redistribution”, nor of taxation directed to redistribute income. The state was accorded only a reduced role. The version presented at the conference contained the idea of privatization, but after a substantial debate (in which heavyweights such as Mandela, Sisulu and Ramaphosa participated) it was replaced by a ‘pragmatic’ and unwieldy sentence committing the ANC to nothing. However the document still recognized the ‘concentration of power in the hands of a few conglomerates’ and called for greater control over the financial sector.<sup>65</sup> At the end of 1992, however COSATU issued a document, *Economic policy in COSATU*, reaffirming ‘growth through redistribution’ and a policy of inward industrialization.<sup>66</sup>

The May conference was speedily followed by the period of breakdown of negotiations and mass action between June and September 1992 precipitated by the Boipatong massacre and ended by the events in Bisho, which was rapidly followed by the agreement reached between the NP and ANC on 26 September 1992 which ushered in the TEC and the elections of April 1994. The ANC economic leadership was clearly already committed to the neo-liberal pro-business policies (privatization rather than nationalization; compelling international competitiveness through trade liberalization; curtailing government spending through no tax increases, a small budget deficits, etc) that were agreed with the IMF as conditions for the November 1993 loan and were to be formalized in GEAR. As Terreblanche puts it, “the corporate sector’s myth that economic growth would ‘trickle-down’ to the poor [was] accepted as self-evident.... The sharp inequalities in the distribution of income and property were

---

<sup>64</sup> See Murray, *Revolution deferred*, pp- 20-21; Marais, *Limits of change*, pp. 149-153; P. Bond, “The making of South Africa’s macro-economic compromise” in E. Maganya, *Development strategies in South Africa* (Johannesburg: IFAA, 1996); P. Bond, “An international perspective on the ‘people-driven’ character of the RDP, *African Communist*, 144, 2<sup>nd</sup> quarter, 1996. See also Hirsch, *Season of Hope*, pp. 49-51

<sup>65</sup> Marais, *Limits of change*, pp.149-150; 154; Terreblanche, *Inequality*, pp. 87-88; Hirsch, *Season of Hope*, pp. 52-4. There was also debate over relations with the IMF and World Bank producing a bland formulation.

<sup>66</sup> See Terreblanche, *Inequality*, pp. 88-9. As another part of what Marais, *Limits of change*, p. 156 regards as its rearguard actions, it organized the institution of a National Economic Forum which later turned into Nedlac.

not acknowledged."<sup>67</sup> In the meantime there were three other ventures stimulated by left intellectuals and basically driven or at least supported by COSATU: the Industrial Strategy Project (ISP), the Macro-Economic Research Group, and the 1994 election manifesto, the Reconstruction and Development Programme. In different ways, all proposed alternatives to neo-liberalism.

The ISP was set up by 'regulationist' economists searching for a path, within capitalism, to solve the crisis of 'racial Fordism'. They were concerned particularly with the poor performance of manufacturing industry. At their inception they still took for granted that ANC policy involved redistribution, potentially placing "greater purchasing power in the hand of low income consumers" and "shifting the demand profile of the economy" presumably towards consumer goods, as well as "infrastructural projects, for example housing and electrification." At the same time, to overcome the balance of payments constraints on growth, they advocated that "manufacturing has to develop a greater capacity to produce capital goods, and a greater ability to export manufactured goods."<sup>68</sup> Both Marais and Bond are critical, however, of the emphasis in their final product principally on export-orientation – "Taiwan-style".<sup>69</sup> "Many of the elements of the ISP plan", writes Marais, "could have augmented an industrial revival strategy geared at servicing popular domestic needs. Instead, they were deployed in a framework that pivoted South Africa's economic revival on an export-led growth strategy" – and this despite their own warning that entry into external markets was increasingly difficult.<sup>70</sup> Bond makes similar points, ridiculing ISP-inspirer Raphael Kaplinsky's advocacy of swimming-pool 'creepy-crawlies' as an example of the niche global markets that South African manufacturing could aspire to, when Kaplinsky also admitted that

---

<sup>67</sup> Terreblanche, *Inequality*, p. 97

<sup>68</sup> A. Joffe and D. Lewis, "A strategy for South African manufacturing", *South African Labour Bulletin*, 16, 4, March-April 1992, p. 26. See also Joffe, D. Kaplan, R. Kaplinsky, D. Lewis, "Meeting the global challenge: a framework for industrial revival in SA" in P. Baker, A. Boraine and W. Krafchik (eds) *SA and the world economy in the 1990s* (Cape Town: David Philip, 1993), pp. 92, 123-4 where they emphasise that promoting competitiveness is not equivalent to an exclusive focus on exports, or even on tradeables, and that it is imperative that low-income SA consumers have access to basic commodities at internationally competitive prices. "For this reason the Project incorporates studies of the informal manufacturing sector, the baking industry, the provision of building materials for a mass housing campaign, and the provision of power distribution equipment for a mass electrification campaign." They are against the lowering of wages and state that production must gravitate towards higher-value activities by moving up the value-chain and into the downstream processing of SA's natural resource and by moving production to niches of high value-added within sectors. These latter points are also emphasised in Joffe, Kaplan, Kaplinsky and Lewis, *Improving manufacturing performance in SA*. In a subsequent publication, however, D. Lewis and M. Ngoasheng, *Restructuring the South African labour market: Report of a commission to investigate the development of a comprehensive labour market policy*, RP 83/1996 (Pretoria: Department of Labour, June 1996), pp. 37-38, both Lewis and Kaplan as members of the commission advised generally against natural resource beneficiation.

<sup>69</sup> Bond, *Cities of gold*, p. 240. See also Hirsch, *Season of Hope*, pp. 38, 57-58

<sup>70</sup> Marais, *Limits of change*, pp. 155-6

“It may seem crazy for a post-apartheid state to target the export sector in the face of the economy’s present problems in meeting basic needs.”<sup>71</sup>

The Macro-Economic Research Group originated in a team of Canadian economists, and was set up as an ANC-linked policy research group as a complement to the ISP’s research on industrial policy. It and the ANC’s more orthodox Department of Economic Planning (headed by Manuel) were constantly at loggerheads and one Stellenbosch economist complained of ‘foreigners’ having too much influence on it.<sup>72</sup> Its main report, *Making Democracy Work*, was issued in December 1993. It advocated Keynesian policies, with budget deficits initially of the order of 7-8% of GDP, as well as a national minimum wage, government control over the Reserve Bank, and a strong role for the state in leading growth, intervening in pricing decisions and creating supervisory boards of various stakeholders for larger companies.<sup>73</sup> MERG was immediately attacked by Tito Mboweni of the ANC’s DEP and by the pro-business media.<sup>74</sup> This was because the ANC was already involved with the secret Letter of Intent to the IMF to secure a loan.<sup>75</sup>

Hirsh, chief director of economic policy in the presidency, disparages the MERG report which “has been resurrected as an icon of the left” and claims the report was “less revolutionary than muddled.” He claims that most of its ideas were “not ideologically controversial in the ANC, recognizes that its proposal for government control of the Reserve Bank was based on the Asian tiger model, and asserts that “Policies that had worked well in East Asia might not be able to be implemented immediately in South Africa because of the incompetence and potential treachery of the old state apparatchiks and the expected inexperience of new civil servants”!<sup>76</sup> Yet it is also Hirsch who in his book puts major blame on the high interest rates implemented by the Reserve Bank in the latter 1990s for the failures of growth and job-creation!<sup>77</sup> (These, moreover, were futile attempts to preserve the exchange rate of the rand in the face of the exodus of hot money. Bond has argued that continued exchange controls would have been a better alternative). Moreover, MERG’s advocacy of relaxed budget deficits as opposed to the tightness of the ANC’s GEAR strategy (deficit down to 4% by 1997/8 and

---

<sup>71</sup> Bond, *Elite Transition*, pp. 65-6

<sup>72</sup> *Finance Week*, March 18-24 1993; Matthew Kentridge, *Turning the tanker: the economic debate in SA* (Centre for Policy Studies Social Contract Series, Research Report No 32, September 1993), pp.55-57; Hirsch, *Season of Hope*, pp. 54-56

<sup>73</sup> MERG, *Making Democracy Work: a framework for macroeconomic policy in South Africa* (Johannesburg: Centre for Development Studies, 1993); Marais, *Limits to change*, pp. 158-9. For figures from which budget deficits can be calculated see MERG, *ibid*, Tables A8-A13, pp. 298-303

<sup>74</sup> Bond, *Elite Transition*, pp. 75-6; Marais, *Limits to change*, p. 160

<sup>75</sup> John Matisonn, “How the ANC battled to balance the ideological books”, *Mail and Guardian*, 6-12/11/1998 – an account cited by Hirsch, *Season of Hope*, p. 63 though with the wrong title and the wrong date (11/11/1998).

<sup>76</sup> Hirsch, *Season of Hope*, pp. 55-7

<sup>77</sup> Hirsch, *Season of Hope*, pp. 77-91, 103

3% by 1999/2000 – it was actually reduced to 2% by 1999/2000) was subsequently supported by the World Bank, which said that a deficit of 12% would be sustainable in South Africa!<sup>78</sup>

The RDP, 1994 election programme of the ANC, was initially COSATU's initiative. It ended up – in what became known as the Base Document -- as a profoundly contradictory and inconsistent document. On the one hand, it contained a social programme that went even further than Keynesianism in putting forward non-market mechanisms for the provision of basic goods and services, decommodifying (turning exchange-values back into solely use-values), democratizing access to economic resources and so on. It was hailed by left intellectuals as posing 'challenges to the commanding heights of capitalism, racism and patriarchy', by proposing 'structural reforms' – reforms which would start the building of socialism under capitalism and lead inexorably to a socialist transition.<sup>79</sup> Hirsch's critique of this part of the RDP is that it returned to the discredited Keynesian idea of redistribution as a means of growth, and contained "mildly dogmatic statements" like the need for a public housing bank and to retain all infrastructure in public hands! On the other hand, its section on macroeconomic policy, as Thabo Mbeki was forcibly to point out to the SACP in 1998, "identified a high [budget] deficit, a high level of borrowing and the general taxation level as... 'part of our macro-economic problem'" – and therefore not in conflict with GEAR.<sup>80</sup> Thus it can be interpreted by Hirsch also as an "Asian-type heterodox policy that combined investment driven hard by the public sector with institutional reform and orthodox macro-economic stability."<sup>81</sup>

---

<sup>78</sup> *Cape Times*, 6/3/1998; Marais, *Limits of change*, p. 164

<sup>79</sup> See Marais, *Limits of change*, pp. 181, 185-6; Bond, *Elite Transition*, pp. 93-96. See also particularly John Saul, "Between 'barbarism' and 'structural reform' ", *New Left Review*, 188, July-August 1991 and, for structural reform, see Andre Gorz, "Reform and revolution" in *Socialism and Revolution*, (New York: Anchor Books, 1973), pp. 133-178

<sup>80</sup> *Business Day*, 3/7/1998. See Bond, *Elite Transition*, pp. 114-5

<sup>81</sup> Hirsch, *Season of Hope*, pp. 59-61. Hirsch also mentions a reinterpretation of "growth through redistribution", claiming that the May 1992 ANC conference separated them into 'complementary programmes' in an Asian-inspired version: "cheaper wage goods due to lower tariffs, and better government services for the poor, especially health and education, leading to higher productivity and exports and therefore growth" (p 54) and elsewhere writes of the ISP advocating export-oriented growth, separated from a redistribution carried out through the 'social wage'. (p. 51) However the 'social wage' has proved inadequate in that respect: see chapter 14. One other 'program' is also worth mentioning, that put forward by Fine and Rustomjee, *Political Economy of SA*, pp. 252-3 (since the latter was to become DG of the Department of Trade and Industry). Because of the failure of the 'minerals-energy complex' to be "vertically integrated forward into the rest of the economy", there has been "an internationally uncompetitive consumer goods industry and limited capacity across a range of intermediate and capital goods." Also the "scope of infrastructural provision" was "extremely limited". They recommended a MERG-type state-funded infrastructural programme "to provide for basic needs", to "intervene selectively to ensure greater coherence in the economies of scale and scope that have previously been neglected" – which they argued was in the interests of labour.

Though the name of the RDP continued to be uttered by the ANC up to its 1999 election campaign and even later, the economic leadership of the ANC had from the start no intention of implementing the RDP where it clashed with their pro-business aims of export-orientation, trade liberalization, fiscal austerity or privatization. As Terreblanche writes, for them it was principally an election programme<sup>82</sup> – and its abandonment started to put into the heads of ordinary South Africans the idea of ‘empty promises’ which resounded so loudly in the delivery protests of 2004 onwards.

As pointed out by Bond, within days of the election Mandela falsely claimed that the RDP said “not a word about nationalization”, Joe Slovo, Minister of Housing, contradicted it by saying that the government could not condone squatting, and ESKOM contradicted it by raising foreign loans.<sup>83</sup> The subsequent Green and more especially the White Paper on the RDP diluted its content drastically, and emphasized neo-liberal ideas.<sup>84</sup> In August, only a few months after the election, the Department of Trade and Industry announced tariff reductions in the clothing, textile, and auto component industries going far beyond the demands of GATT.<sup>85</sup> In September Mandela at the COSATU Congress evoked the low-wage Asian economies and called on workers to tighten their belts and sacrifice to grow the economy.<sup>86</sup>

In March 1995 the financial rand was abolished, removing a key aspect of exchange control, and legitimizing the relatively free movement of money abroad by big companies – do the detriment of investment in South Africa. Thus, in Bond’s words: “South Africa’s national sovereignty continued to be offered up on a plate to impetuous and whimsical local and international financial markets” – as displayed in the currency crashes of 1996, 1998, and 2001.<sup>87</sup> In September 1995 the government produced a document justifying privatization.<sup>88</sup> When Mbeki told the 1998 SACP Congress that the RDP had not been departed from, Bond and Meshack Khoza did a systematic comparison of the directives of the RDP document with the processes of implementation, and while they noted some that were achieved, there were many others that had been “distorted, contradicted or simply ignored”: the charge that “the ANC had abandoned the RDP was indeed true in most crucial areas of social policy”.<sup>89</sup>

---

<sup>82</sup> Terreblanche, *Inequality*, pp. 110, 112

<sup>83</sup> Bond, *Elite Transition*, pp. 90-91

<sup>84</sup> Terreblanche, *Inequality*, p. 109; Marais, *Limits of change*, pp. 179, 181, 188; Bond, *Elite Transition*, pp. 97-8

<sup>85</sup> Terreblanche, *Inequality*, p. 115; Marais, *Limits of change*, p. 129

<sup>86</sup> Marais, *Limits of change*, p. 160

<sup>87</sup> Bond, *Elite Transition*, p. 216; Bond, “From racial to class apartheid: SA’s frustrating decade of growth”, *Monthly Review*, March 2004.

<sup>88</sup> Marais, *Limits of change*, pp. 163, 174

<sup>89</sup> Bond, *Elite Transition*, pp. 113-117 and generally pp. 89-121; P. Bond and M. Khoza (eds), *An RDP Policy Audit* (HSRC Publications, 1999). See also Marais, *Limits of change*, pp. 188-195

In March 1996 Trevor Manuel became Minister of Finance: three months later the openly neo-liberal policy of Growth, Employment and Redistribution (GEAR) was introduced, without discussion on the ANC NEC, or consultation with COSATU and the SACP, partners in the Tripartite Alliance.<sup>90</sup> The background was a 25% depreciation of the rand between February and June (the first currency crash), and the publication in February by the South African Foundation of *Growth for All*, a vicious document claiming that the new government had no credible economic policy, rejecting the RDP as unattainable, and demanding a brisk privatization programme, a two-tier labour market, and curbs on government spending.<sup>91</sup> Interestingly enough – given the attempts of the ANC leadership in 2005 to reintroduce a two-tier labour market, Hirsch notes that at that time Tito Mboweni, then Labour Minister, said it was an “affront to democracy”.<sup>92</sup>

GEAR promised to drive the budget deficit down to 3% of GDP by 2000, keep inflation below 10%, reduce corporate taxes, have a general tax ceiling of 25% of GDP, phase out exchange control, encourage wage restraint, speed up privatization, and create a more flexible labour market – all policies associated with IMF and World Bank ‘structural adjustment programmes’.<sup>93</sup> “There are few differences between GEAR and the [NP’s] NEM, the [November 1993] ‘statement on economic policies’ and [the SA Foundation’s] *Growth for all*”, commented Terreblanche, “it is openly Thatcherite in content and tone.”<sup>94</sup> All this was, of course, at the cost of cutting spending on the needs of the disadvantaged majority. Vella Pillay, previously director of MERG, and at the time director of National Institute for Economic Policy, in fact in the same period advocated *raising* the budget deficit.<sup>95</sup> In his 1997 budget speech Manuel had the gall to describe promises to privatize, to make wages more flexible, to reduce the state deficit and to cut back public spending as “deep transformation” – in reality neo-liberal restructuring as opposed to the redistributive transformation promised by the liberation struggle.<sup>96</sup> Hirsch justifies GEAR as a result of the fear of conceding sovereignty to the IMF and the World Bank in the event of a crisis, but then admits: “The irony was that in order to stave off the power of

---

<sup>90</sup> On the issue of consultation, see Marais, *Limits of change*, p. 160; Hirsch, *Season of Hope*, p. 101

<sup>91</sup> See Marais, *Limits to change*, pp. 162-3, 188; Bond, *Elite Transition*, pp. 32; Terreblanche, *Inequality*, pp. 112-114; Hirsch, *Season of Hope*, pp. 92-6

<sup>92</sup> *Sunday Times*, 10/3/1996 cited in Hirsch, *Season of Hope*, p. 95

<sup>93</sup> See *Business Report*, 18/6/1996; Bond, *Elite Transition*, pp. 78-84; Marais, *Limits to change*, pp. 161-4

<sup>94</sup> Terreblanche, *Inequality*, p. 115

<sup>95</sup> Hirsch, *Season of Hope*, p. 95 from *Business Report* 12/3/1996. See also Vella Pillay and C. Millward, writing in response to the announcement of GEAR, “Where is a plan when you need one?” *Cape Times*, 20/6/1996

<sup>96</sup> Terreblanche, *Inequality*, p. 116 and H. Adam, F van Zyl Slabbert and K. Moodley, *Comrades in Business: post-liberation politics in South Africa* (Cape Town, Tafelberg, 1997), p. 206

international finance, the ANC committed itself to policies approved by the same financiers”!<sup>97</sup>

GEAR was justified by the government and mainstream economists on the grounds of the “unsustainable”<sup>98</sup> budget deficits (7,3% in 1992 and 10,1% in 1993)<sup>99</sup> and the “huge, growing government debt and interest burdens”<sup>100</sup> (debt amounting to 48% of GDP in 1995/6 and interest payments approaching 22% of the budget in 1995)<sup>101</sup> Hirsch writes: “it was thought that the debt burden was crowding out private sector borrowing – what was certain was that the debt to GDP ratio raised fears of macroeconomic instability that could drive away private investment capital.”<sup>102</sup>

But, as the NGO Alternative Information and Development Centre (AIDC) was subsequently to make clear, a better way of dealing with these problems would have been to write off the government debt. In fact the largest single component of this debt (40%) was owed to the Public Service Pension Fund (only 4% is foreign debt). This had been run up in the early 1990s in the last years of the NP government – to assure top apartheid civil servants of their pensions, or early retirement golden handshakes, in case the ANC stopped paying them pensions.<sup>103</sup> In 1980 total government debt was about R20 billion and in 1989 R80 billion. Correspondingly, the budget deficit in 1991 had been a mere 1,4% GDP and government debt only 29% of GDP; in 1978-82 interest payments had been a mere 8,3% of the budget.<sup>104</sup> By 1997, however, government debt *had risen to R310 billion!* This was because of a change from a ‘pay-as-you-go’ to a fully-funded pension fund, the value of whose assets increased by R100 billion (from R31 billion in March 1989 to R136 billion in September 1996) paid for from taxpayers money.

Hirsch calls the early 1990s “a period of fiscal indiscipline” and says some ANC supporters speculated “that the old regime had deliberately set a debt trap to constrain the actions of the ANC government.”<sup>105</sup> If the ANC government had looked into the matter more carefully, it would have seen what had happened. The AIDC calculated that if this debt to the pension fund had been written off

---

<sup>97</sup> Hirsch, *Season of Hope*, p. 69. For refutation of this argument see Bond, *Elite Transition*, pp. 189-191

<sup>98</sup> Iraj Abedian in *Business Report*, 29/6/2005

<sup>99</sup> Gelb, “Overview of SA economy”, p. 370. Compare the somewhat different figures in Hirsch, *Season of Hope*, pp. 70, 77, 235

<sup>100</sup> Hirsch, *Season of Hope*, p. 69

<sup>101</sup> Gelb, “Overview of SA economy”, p. 370; Iraj Abdian in *Business Report*, 29/2/2005. Hirsch, *Season of Hope*, gives different figures on pp. 77, 235.

<sup>102</sup> Hirsch, *Season of Hope*, pp. 72-3

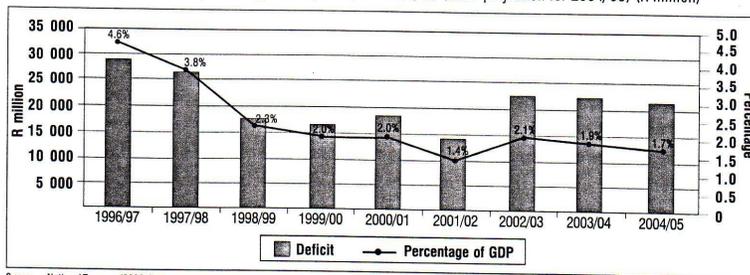
<sup>103</sup> AIDC, “Apartheid debt – the pension fund component”, September 1997; Glassbox consulting, “The impact of restructuring public pension debt”, 1997; AIDC, “Update: restructure public debt” taken from Gavan Duffy, “The economics of SA’s public debt problem”, Glassbox consultants, February 1998

<sup>104</sup> Gelb, “Overview of SA economy”, p. 370; Hirsch, *Season of Hope*, p. 71

<sup>105</sup> Hirsch, *Season of Hope*, pp. 70-71, 258

(which they analysed would have been possible with no threat to people's pensions), debt would be only 36% of GDP and not 60%, and the budget deficit would have been substantially reduced.<sup>106</sup> This, moreover, would have led to a reduction of the high interest rates of the time, which (at least according to Hirsch) were partly due to the level of government debt.<sup>107</sup> Hirsch and the ANC's economic gurus congratulate themselves that debt and debt servicing has been brought down in the 2000s. But debt was still 50% of GDP in 2004 and debt servicing costs were 14% of the 2003/04 budget and 13,2% of the 2004/5 budget.<sup>108</sup>

FIGURE 5 Budget deficit as percentage of GDP, 1996/97-2004/05 (MTEF projection for 2004/05) (R million)



Source: National Treasury (2002a)

From: A. McCord, "Overview of the SA economy" in HSRC, *Human resource development review 2003: education, employment and skills in SA* (HSRC Press, 2003), p. 49

To their credit, the leadership of COSATU immediately expressed its reservations about the GEAR strategy. Initially, however, the SACP did not oppose GEAR, and only came out against it almost a year later.<sup>109</sup> The only consolation for the working class in 1997 came in the passage of the Basic Conditions of Employment Act, to the intense hostility of business, which intensely disliked the 'labour market inflexibility' that it created – making it more difficult to fire workers. Indeed in June that year even the *Quarterly Bulletin* of the Reserve Bank attacked the legislation, then still under discussion, which was vehemently objected to by COSATU.<sup>110</sup>

<sup>106</sup> AIDC, "Apartheid debt"; Glassbox consulting, "The impact of restructuring"; AIDC, "Update"

<sup>107</sup> Hirsch, *Season of Hope*, p. 241

<sup>108</sup> Hirsch, *Season of Hope*, p. 235; Iraj Abedian in *Business Report*, 29/6/2005. Gelb, "Overview of SA economy", p. 371 claims the debt since 2003 has been less than 40% of GDP.

<sup>109</sup> Marais, *Limits of change*, p. 162. Relevant articles mentioning GEAR in the *African Communist* are Hein Marais, "All GEARed up", 145, 3<sup>rd</sup> quarter 1996, pp. 30-42; Editorial notes, "Time to shift the terrain of debate", 146, 1<sup>st</sup> quarter 1997, pp. 1-3; "Economic policy in the alliance: a central committee discussion document", 147, 3<sup>rd</sup> quarter 1997, which admits as a *discussion* document, a year after the launching of GEAR, that "we have not articulated a very elaborated or coherent position on GEAR over the past year" (p. 15) and merely argues that "some of the overall assumptions of GEAR are themselves seriously flawed." (p. 21)

<sup>110</sup> See, for example, *Sunday Times Business Times*, 22/6/1997; *Sunday Times Business Times*, 9/11/1997; *Cape Times*, 10/11/1997

## Privatisation and BEE

In a recent paper, Cronin identified three phases in the post-apartheid economy: 1994-9, when macro-economic policy was assumed as the driver of growth, 1999-2002 when privatization was supposed to be the key catalyser of growth, and post-2002 when infrastructural investment is the key catalyser – a policy which is to be continued in the infrastructural investment of ASGISA.<sup>111</sup> Let us now examine the second of these phases, adding “black economic empowerment” to privatization as supposed catalysers of growth. Let us also recall that the The Freedom Charter declared: “The People shall share in the country’s wealth” – and judge privatization and black ‘economic empowerment’ against that standard.

What is the record on privatization? The 30% stake in Telkom bought by Texan and Malaysian capitalists have in fact made communication costs in South Africa among the highest in the world – by no means to the benefit of the people.<sup>112</sup> The cost of local calls increased hugely, leading to an actual decline in the use of fixed-line phones. In 1994 34% of the population had telephone landlines; in 1997 32% and in 2002 27%.<sup>113</sup> Of thirteen million connected to fixed line telephones for the first time after 1994, ten million were disconnected.<sup>114</sup> Today even poor people who can afford a cell phone on a pay-as-you-go basis prefer it to a fixed line phone with high rental charges. The partly-privatised Telkom slashed its workforce from 64, 000 to 24,000. 13,000 workers were supposed to be included in ‘outsourced’ entities – but only 2000 of even these jobs still exist.<sup>115</sup> Attempts by the government to cap fixed-line monopoly pricing were blocked by the owners, and as a result, Telkom’s 2003 initial public offering of shares in New York raised only a disappointing \$500 million. In the process an estimated \$5 billion of Pretoria’s own funding of Telkom’s late 1990s capital expansion evaporated.

In the field of transportation there have been partial privatizations, creating for example commercialized toll roads which are unaffordable for the poor. Air transport privatization led to the collapse of the first regional state-owned airline (Sun airlines). South African Airways has been disastrously mismanaged, with huge currency-trading losses and an inexplicable \$20 million payout to a short-lived U.S. manager. The privatization of the Airports Company has led to security lapses and labor conflict. The ANC-aligned SATAWU is

---

<sup>111</sup> J. Cronin, “The people shall govern – class struggles and the post-1994 state in South Africa” (Unpublished paper presented to AIDC Freedom Charter conference, Cape Town, November 2005)

<sup>112</sup> This section on privatisation is taken largely from P. Bond, “From racial to class apartheid”, *Monthly Review*, March 2004

<sup>113</sup> Figures from the South African Advertising Foundation quoted by J. Crocker, *Cape Times*, 3/4/2003

<sup>114</sup> Bond, “From Race to class apartheid” [AIDC paper], p. 13

<sup>115</sup> Terry Bell, *Business Report*, 10/6/2005

currently in the throes of a strike over its fears about further transportation privatizations. The increasingly corporatized rail service has shut down many feeder routes that, although unprofitable, were crucial to rural economies. How has this benefited the people?

In electricity generation, the parastatal Eskom, the world's fourth largest electricity producer, made redundant thirty thousand electricity workers during the 1990s to try to prepare for privatisation. Despite problem shut-downs of the existing nuclear power plant at Koeberg in Cape Town, the state is likely to expand nuclear energy, through new pebble bed reactors in partnership with U.S. and British firms. Electricity rates for township customers have risen to unaffordable levels as cross-subsidies came under attack during the late 1990s. Millions who fell into arrears have been disconnected —leading to mass resistance through illegal reconnections. Those who have been forced back to the use of paraffin or coal stoves face huge fire risks – fires continually sweep through shack settlements – as well as the threat of respiratory diseases. How has this benefited the people?

Virtually all local governments began to turn to a 100 percent cost-recovery policy during the late 1990s, preparing for a wave of privatization of water and waste services. Although this privatization has so far applied to only 5 percent of municipalities, the pilot projects have been run by the world's biggest water companies (Bewater, Suez, and Saur) and have resulted in over-priced services. Contracts have been renegotiated because of insufficient profits; pre-paid water meters have been widely installed; services have not been extended to most poor people; and many low-income residents have been disconnected. Attempts to recover costs from poor communities inflict hardships on the most vulnerable members of society, especially women and those with HIV positive family members. The dogma of 100-percent-cost-recovery led to the continent's worst-ever cholera outbreak in August 2000, catalyzed by mass disconnections of rural residents. How has this benefited the people?

Black economic empowerment (BEE) equally, has simply a euphemism for the incorporation of blacks into the ownership of the monopolies.<sup>116</sup> The 1969 programme of the ANC declared that “our nationalism... must not be confused with the classical drive by an elitist group among the oppressed people to gain ascendancy so that they can replace the oppressor in the exploitation of the mass.”<sup>117</sup> The sentiment inside the country in the 1980s was that “Our victory does not consist merely of replacing white faces by black faces, but of transforming the conditions of the lives of the masses.”<sup>118</sup> Nevertheless, the

---

<sup>116</sup> According to Hirsch, *Season of Hope*, p. 211, the RDP was the first policy document to mention black economic empowerment, but only in the context of small business development.

<sup>117</sup> *Forward to Freedom: documents on the national policies of the ANC of South Africa* (Morogoro: ANC, 1969), p. 14

<sup>118</sup> J. Naidoo, “We see it as our duty to make sure that freedom does not merely change the skin colour of our oppressor”, *South African Labour Bulletin*, 11, 5, (1986), p. 35

'unbundling' advocated by Mandela has been taking place. The share of the top monopolies on the JSE fell from 85,7% in 1992 to 61% in January 1998 and to 44% in 2004. Ironically, the main 'unbundling' was to the benefit of Afrikaans groups – who by the end of 1998 owned 32% of the JSE (including Rand Merchant Bank group with 4,8% and Christo Wiese's retail and banking empire with 3,4%) – while the Rupert family's Rembrandt grew from 7,8% in 1995 to 13,7% in 2002.<sup>119</sup> Nevertheless, aspirant black capitalists have also benefited.

The first wave of BEE was initiated by Sanlam when in 1993 it sold a controlling share of Metlife to Motlana's NAIL, and by Anglo American 'unbundling' JCI to Mzi Khumalo.<sup>120</sup> This was achieved by means of so-called 'special purpose vehicles', which, in Bond's words were "a series of dubious financial scam-operations which put black 'owners' in historically unprecedented debt at historically unprecedented real interest rates... to buy historically unprecedented over-inflated companies whose price/earnings ratios were at an all-time high."<sup>121</sup> These took black ownership to some 10-12% of the JSE until these ventures came to grief, especially when interest rates were raised by 7% in a fortnight by the Reserve Bank as a result of the East Asian currency crash in September 1998 – though Khumalo was already in trouble before this.<sup>122</sup> Black ownership fell back to 2%, though it rose to 3-4% direct ownership and 12-15% direct or indirect ownership by 2002.<sup>123</sup>

On the initiative of black businessmen, the Black Economic Empowerment Commission, chaired by Cyril Ramaphosa, was established at the end of 1997 and reported in 2001. As a result legislation was passed in September 2003 leading to sectoral 'empowerment charters' imposing targets for BEE on white-owned business.<sup>124</sup> In 1998 people in the ANC were complaining that "the purchase of shares on stock exchanges [by aspirant black capitalists] does not result in the expansion of the economy, but in producing new owners of existing stock... Many argue that empowerment should be about building factories and creating jobs rather than purchases of volatile stocks and shares."<sup>125</sup> In response,

---

<sup>119</sup> Hirsch, *Season of Hope*, p. 196-7; Romney, "Who owns South Africa", p. 408; *Sunday Times Business Times*, 15/2/1998; *Sunday Times Business Times*, 13/6/1999

<sup>120</sup> Hirsch, *Season of Hope*, pp. 214-6; Romney, "Who owns South Africa", p. 40

<sup>121</sup> Bond, email of 25/7/2004 to DEBATE SA discussion list "New Gelb/contraGelb: 'SA stagnates, rotting slowly'. See also Hirsch, *Season of Hope*, pp. 218-220; Romney, "Who owns South Africa", p. 416

<sup>122</sup> Bond, "New Gelb/contraGelb"; Hirsch, *Season of Hope*, 217-219. For Khumalo see, for example, *Sunday Independent Business*, 25/1/1998; *Business Day*, 27/1/1998; *Business Day*, 29/1/1998; *Sunday Times Business Times*, 1/2/1998; *Sunday Times Business Times*, 24/6/2001: the SPV method "proved unsustainable in the 1998 crisis as it was tied to the performance of share prices"

<sup>123</sup> Romney, "Who owns South Africa", pp. 415-6; *Sunday Times Business Times*, 24/6/2001.

Compare Hirsch, *Season of Hope*, pp. 228-230

<sup>124</sup> See Hirsch, *Season of Hope*, pp. 220-221

<sup>125</sup> *Sunday Independent*, 31/5/1998. In 1996 Fine and Rustomjee, *Political Economy of SA*, p. 253, wrote that "the prospects for creating a black [capitalist] counterpart seem as bleak as they are undesirable"!

the Commission came out with incredibly vague statements. According to its deputy chair, Gavin Petersen it took a 'broad' rather than a 'narrow' definition of empowerment: rather than "evaluating empowerment in terms of the transactions focusing on transfer of ownership only", it argued that empowerment was "a coherent socio-economic process which is integral to national transformation... seeking to substantially and equitably transfer the ownership, management and control of financial and economic resources to the majority of its citizens... [it] must have an effect on the *lives of those excluded from the economy*."<sup>126</sup> The government supported the Commission, with Joel Netshitenzhe, head of the president's policy unit claimed: "The implication of not involving *the majority at all levels of the economy* is that the country relies on a smaller pool of wisdom and expertise, it has a smaller middle class and employed population. This has negative consequences for aggregate demand, and there is a real danger that over time, blacks would become cynical of democracy."<sup>127</sup> The new state, an ANC document proclaims, "promotes the emergence of a black capitalist class."<sup>128</sup>

It is true that the cheap labour system of the past in South Africa reduced "aggregate demand" and that inhibited economic growth. But how is the creation of more black capitalists going to solve this problem? The "aggregate demand" created by black capitalists is for more 4by4s and more Rolex watches. What the masses need is money in their pockets for food, for shelter over their heads, for health, for schooling. How can capitalists, simply because their skin colour is black rather than white, create more jobs? Profit-making is the criterion for job creation, not colour. 'Black capitalism' make not one iota of difference to the predicament of the masses in South Africa – save for creating a few more wealthy black faces. In January 1998 James Motlatsi, then president of the NUM, complained at the sale of six mine shafts by Anglo American to African Rainbow Metals, He said that the deal was "not black empowerment at all" as it involved the loss of 3000 mineworkers' jobs.<sup>129</sup> Subsequently Motlatsi has been co-opted as a director of Anglo Gold! Blade Nzimande, SACP general secretary, has criticized those who want to be "filthy-rich millionaires" and argued for BEE to empower the "black working class". He later asked: do headline-hitting empowerment deals 'remotely' contribute to dealing with the challenges of unemployment and poverty, or were they rather doomed to serving only a select few.<sup>130</sup> If the Commission and Netshitenzhe, moreover, were serious about wanting to involve *the majority* in 'ownership, management and control' of the economy, then the way to this is through *nationalization* of its commanding heights, under workers' control and management, not the promotion of a black capitalist class.

---

<sup>126</sup> *Business Day*, 3/4/2000

<sup>127</sup> *Financial Mail*, 9/8/2002

<sup>128</sup> Quoted by Ben Turok in *Business Day*, 25/5/2000

<sup>129</sup> *Business Report*, 16/11998

<sup>130</sup> *Business Day*, 25/5/2000; *Business Day*, 5/5/2005

Deputy president Phumzile Mlambo-Ngcuka said recently that she didn't think "there is any virtue in pure BEE if that equals poor service." At the same time she defended the "concentration of equity ownership in a few hands, charging that there appeared to be different rules for black and white entrepreneurs."<sup>131</sup> But there are objections to *both* white and black entrepreneurs "concentrating" ownership "in a few hands" – and the answer to this is to make ownership of the commanding heights *social*.

Malaysia's programme of transferring economic power to the indigenous Malays is often quoted as a model that South Africa could follow for 'black capitalism'. It is ironic that just as Mbeki was promoting this programme, the Malaysian government was abandoning it. The Malaysian Prime Minister, according to the *Financial Mail*, has accused indigenous Malays (Bumiputeras) of selling off the businesses provided to them by the government for a quick return: they "sold off their opportunities to become sleeping partners in an arrangement cynically known as 'Ali Baba' in which Ali merely obtains the licenses, permits, shares or contracts and immediately sells them off to non-Malays"<sup>132</sup> What the pro-capitalist *Financial Mail* failed to mention is that the solution of the Malaysian government was to *nationalise* big Malay-owned businesses.<sup>133</sup>

In November 2004 the US/Malaysian investors in Telkom sold their shares to three blacks, two with top positions in government. This moved even the capitalist paper *Business Day* to comment: "as sure as the sun rises, this enrichment of the few, this constant bagging of state assets by the same rich and connected blacks and this bagging of the same rich and connected blacks by white business desperate to get its empowerment targets out of the way, will lead to trouble for SA. One day. You cannot fob poor people off with water and lights while the party powerful get to own the water and lights.

"This ANC-sanctioned greed will demonise capitalism again as it was rightly demonized under apartheid and the institutions rushing to finance the latest charade should be ashamed of themselves...

"The future danger for the country is obvious. By creating a tiny class of favoured black capitalists in much the same mould as the established class of white ones, the economy does not change shape and this cannot change outcomes. That means the poor get poorer and that they will multiply. And not forever will the liberation sloganeering at election time be able to hide the fact that while the masses are expected to wait and wait, there's a party on in Fat City."<sup>134</sup>

Of course *Business Day's* answer was to broaden the spread of shareholders. The masses answer on the other hand would be to implement the

---

<sup>131</sup> *Sunday Times Business Times*, 27/11/2005

<sup>132</sup> *Financial Mail*, 9/8/2002

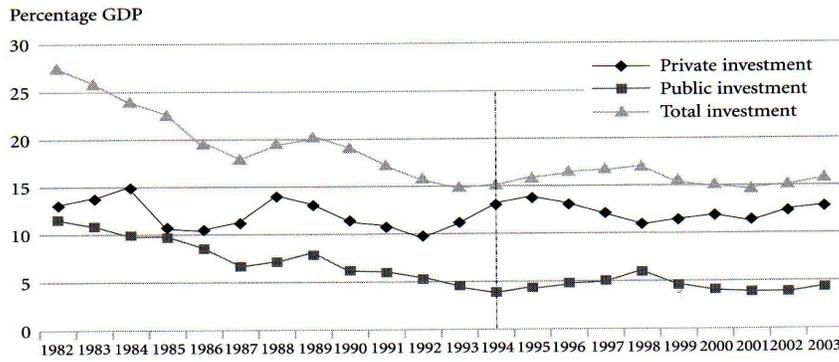
<sup>133</sup> *Financial Times*, 7/8/2002

<sup>134</sup> *Business Day*, 10/11/2004

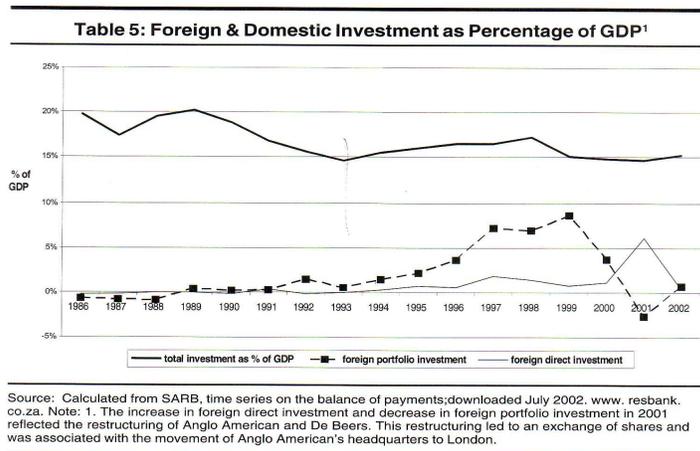
Freedom Charter by nationalizing the big banks and monopolies (whether white- or black- owned) under workers' control and management.

## Investment

Figure 14.7 Investment as share of GDP, 1982–2003

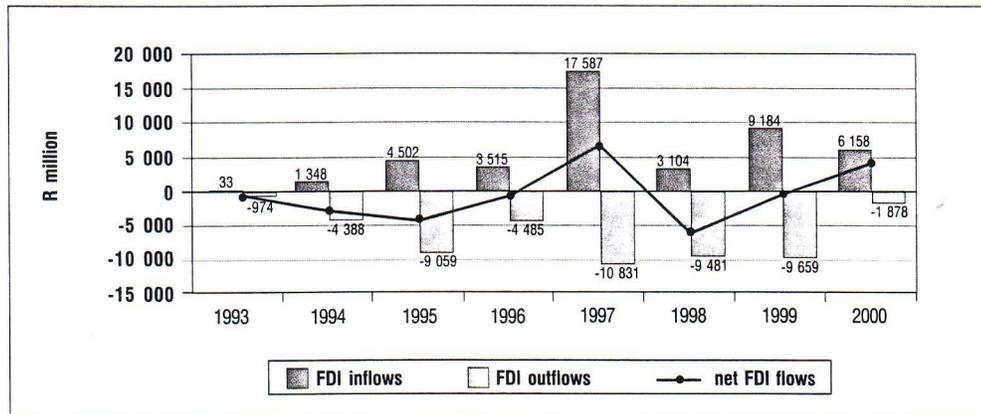


From S. Gelb, "Overview of the SA economy", in J. Daniel, R. Southall and J. Lutchman, *State of the Nation: South Africa 2004-5*, (HSRC), p. 385



From N Makgetla, "The post-apartheid economy", *ROAPE*, 100. June 2004, p. 267

FIGURE 4 Net foreign direct investment flows, 1993-2000 (R million)



Source: Poswell & Bhorat (2002)

From: A. McCord, "Overview of the SA economy" in HSRC, *Human resource development review 2003: education, employment and skills in SA* (HSRC Press, 2003), p. 49

Investment is the key to growth in the economy, to the provision of jobs and services, and to improving the lives of people. In its heyday in the 1960s and 1970s gross domestic fixed investment in South Africa was the equivalent of countries such as Malaysia, South Korea and Australia, peaking at an average of 26% of GDP between 1971 and 1976 (when it was 30%) – and higher than other import-substitution economies such as Mexico, Brazil and Chile.

But from 1983, with the onset of the crisis of the economy, it declined, from 26,8% of GDP in 1983 to 25% in 1985, to well below 20% in the late 1980s, and to 15,5% by 1993. In other words between 1983 and 1993 fixed investment was largely negative, sometimes falling by 6% or more a year. But after 1994, under the ANC government, it has *barely picked up*. It increased by less than 2% a year during the GEAR period (when it was projected to grow by 7% a year). Private sector investment fell by 0,7% in 1998, and in 1999 and 2000 total investment fell.<sup>135</sup> While Malaysia, South Korea and Australia have continued to invest at levels between 20 and 30% of GDP, South Africa has staggered along at 15-16% of GDP. More recently it has begun to increase (from a very low level).<sup>136</sup> But according to SA Reserve Bank figures, though it grew by 9,4% in 2004 and 9% in the first half of 2005, it was still only some 17% of GDP.<sup>137</sup>

<sup>135</sup> Bond, *Elite Transition*, p. 193

<sup>136</sup> *Mail and Guardian*, 16-22/7/2004; COSATU, *Peoples Budget 2005-6*, p. 5; N. Makgetla, "The post-apartheid economy", *ROAPE*, Vol 31, 100, June 2004, pp. 264, 266; M. Altman, "The state of employment", (2004), p. 174; Bond, *Elite Transition*, p. 193; Marais, *Limits of change*, pp. 100-102; Hirsch, *Season of Hope*, pp. 105-6, 139-140, 240. Also *Business Day*, 12/3/1998; *Sunday Times Business Report*, 27/10/1996

<sup>137</sup> SA Reserve Bank Governor's Annual Address. *Business Day*, 25/8/2005

Private investment averaged only 12,1% of GDP between 1994 and 2003 compared with 10,6% in the period of recession and great uncertainty between 1990 and 1993.<sup>138</sup> And this is despite a taxation policy under the ANC government which has slashed taxes on business. The prime tax rate for companies fell from 48% to 30% in 1999. Thus companies' contribution to total tax revenue fell from 27% in 1976 and 22% in 1980 to 18% in 1990 and 11% in 1999 though they increased somewhat again to 24,5% in 2005. That of the mines fell from 9% in 1976 to 2% in 1990 and less than 0,5% in 1999. Correspondingly, personal taxes rose from 25% in 1976 to 30% in 1990 and 42% in 1999 and fell to 31,5% in 2005.<sup>139</sup>

In addition, there has been negligible direct foreign investment since the advent of the ANC government in 1994. Between 1996 and 2002 it averaged 1% a year, in comparison with the GEAR target of 4% of GDP. Virtually all foreign direct investment was the purchase of existing (privatized) assets, eg of Telkom – reflected in the inflow of more than R17 billion in 1997 (the only year up to 2000 that gross inflows have exceeded R10 billion). The recent acquisition of ABSA bank by Barclays Bank, at the cost of R28 billion<sup>140</sup>, though widely celebrated by government, is a similar exercise – and, significantly, in the financial sector and not in manufacturing industry. In fact, according to the then Governor of the Reserve Bank, between 1994 and 2000, R7 billion had entered the country as direct foreign investment compared to R230 billion in portfolio investment (“hot money”) – 32 times as much.<sup>141</sup> Such ‘investment’, which can be easily sold off, has been responsible for the volatility of the rand’s exchange rate since 1994.<sup>142</sup> Even recently, because the real interest rates are so much higher than in the advanced capitalist countries, the trade in the rand has been 20 times GDP.<sup>143</sup> Portfolio investment still dominated investment in 2005: in the first quarter there was a R1,3 billion inflow in direct investment, and R7,8 billion in portfolio investment; in the second quarter a net outflow of R1 billion in foreign investment (a partial withdrawal by the German investor Claus Daun) an inflow of R22,1 billion in portfolio investment.<sup>144</sup>

According to the Economist Intelligence Unit in 2004, in fact, between 1995 and 2001 there was an average annual net *outflow* of capital from South Africa

---

<sup>138</sup> Gelb, “Overview of SA economy”, p. 385

<sup>139</sup> Bond, *Commanding heights*, p. 42; P. Bond, “From racial to class apartheid”, *Monthly Review*, March 2004; Z. Vavi in *Cape Times*, 6/3/1998; Terreblanche, *Inequality*, p. 143 from COSATU, *Response to 200-2001 budget*; Economist Intelligence Unit, *Executive briefing*, 29/2/2004; *Financial Mail*, 10/2/2006; Hirsch, *Season of Hope*, p. 74 regards the tax levels in 1994 as ‘heavy’!

<sup>140</sup> *Business Day*, 3/1/2006

<sup>141</sup> Bond, *Elite Transition*, p. 193; Naledi, *SA country and sectoral analysis*, February 2004, p. 18; Terreblanche, *Inequality*, p. 117; *Business Report*, 24/10/2000; *Business Day*, 12/3/2001

<sup>142</sup> See, eg, Marais, *Limits of change*, pp. 123, 126

<sup>143</sup> *Business Day*, 21/6/2004

<sup>144</sup> *Business Report*, 23/9/2005

amounting to 0.25% of GDP.<sup>145</sup> From 1998 – as part of the agreement reached early in the decade with the ANC -- Anglo American, Billiton, Dimension Data, SA Breweries, Old Mutual moved their head offices to London and their main listings to the London stock exchange – so that their subsequent new investment in South Africa counts as foreign investment.<sup>146</sup> But this has also burdened South Africa with a growing outflow of dividends: from R2 billion in 1995 and 1996 to R22 billion in 2001 and 2002.<sup>147</sup>

AGSI goes along with ‘big’ plans for infrastructural investment – R372 billion. But if these are realized it will merely push public sector investment from 4 to 8% of GDP – a mere additional 4%.<sup>148</sup> But would the private sector respond by increasing its investment sufficiently to raise the total level of investment to around 25% of GDP?

## Exports

“The government strategy for growth centres on invigorating an export-oriented manufacturing sector” wrote Marais in 1998.<sup>149</sup> The expansion of exports is necessary for government strategy to avoid falling into balance of payments difficulties when importing the needed capital goods for investment in expanded production. Moreover the expansion of *manufacturing* exports is necessary to upgrade the economy from being a mere dependent raw materials (agricultural and mineral) exporter as has been its history. Thus the expansion both of exports, and of manufacturing exports, is central to *job creation* in South Africa. Let us examine (a) the question of exports as a whole and (b) their sectoral composition, and, together with this, their consequences for jobs.

Exports have expanded since 1994. However their expansion has been meager in comparison to what is required. At constant 1995 prices, exports apparently doubled between 1995 and 2000 -- from R100 billion to R200 billion – equivalent to an increase of 20% a year.<sup>150</sup> According to a recent academic study, exports grew at 6,1% a year between 1994-2000 at constant prices.<sup>151</sup> From 1995 to 2002 exports rose 30% in volume terms.<sup>152</sup> Between 2002 and 2004, however, the strengthening of the rand has led to virtual stagnation in exports, which have

---

<sup>145</sup> Economist Intelligence Unit, *Executive Briefing, South Africa*, 29/2/2004

<sup>146</sup> Terreblanche, *Inequality*, p. 122; *Business Day* 16/10/1998; *Sunday Times Business Times*, 18/10/1998 See Bond, *Elite Transition*, pp. 24-29. In June 2001 Manuel said no more companies would be given permission to move: Terreblanche, *Inequality*, p. 147; *Business Day*, 21/6/2001

<sup>147</sup> Makgetla, “Post-apartheid economy”, p. 276. Also see Terreblanche, *Inequality*, p. 122

<sup>148</sup> *Financial Mail*, 10/2/2006. See also Hirsch, *Season of Hope*, p. 244

<sup>149</sup> Marais, *Limits of change*, p. 126

<sup>150</sup> *Business Report*, 15/3/2000

<sup>151</sup> Stuart Jones, “External trade in the 1990s”, in Jones and J. Inggs, (eds) *The SA economy in the 1990s*, Special issue, *SAJEH*, 18, 1-2, September 2003, p. 336-7

<sup>152</sup> Neva Makgetla, *Business Day*, 8/5/2004. See also table in Makgetla, “Post-apartheid economy”, p. 274

grown by less than 3%.<sup>153</sup> In January 2005, in fact, exports plunged by 28,63%. A survey in 2004 by the Bureau for Economic Research showed that 40% of local manufacturers had stopped exporting due to the strength of the rand.<sup>154</sup>

Despite the general trend of a growth in exports, however, the ANC government has not been able to reverse the economy's steadily decline (since the 1970s) in its share of world trade, which was 1,43% from 1965 to 1969; 1,3% in 1980; 0,72% from 1985-9; 0,7% in 1989; 0,60% from 1990 to 1994; 0,53% in 1995-9 and 0,44% in 2000-2003.<sup>155</sup> This is because South African exports have not been 'market-dynamic'. In 1998 the 20 most market-dynamic product groups grew at average rate of 12,9% and accounted for 22,6% of total world exports (28,7% of developing country exports). In SA these products contributed a mere 3% of total exports.<sup>156</sup>

What about the sectoral distribution of exports? South Africa historically has been an exporter of minerals (gold and diamonds) and agricultural products. From the early 1970s government commissions recommended an expansion of manufacturing exports – but in fact they fell from 31% of exports in 1970 to 12% in 1988.<sup>157</sup> In 1990 South Africa's first two exports (by value) were still gold and diamonds, together with platinum, followed, in order, by iron and steel, coal, ores, and copper goods. (Iron and steel and coal exports had expanded rapidly in the 1980s). Edible fruit and nuts was number 7. Export of machinery (R973,2 million) was a new development, the only real "manufacture" in the top 10 exports. The second tier (10-20) of exports in 1990 included three mineral products, plus (SASOL-based) inorganic chemicals, and motor vehicles and parts. Jones concludes that South Africa remained "a resource-based economy heavily dependent upon the products of its mines and fields."<sup>158</sup>

Hirsch, working in the presidency, claims that since 1994 "exports have diversified far beyond raw and semi-processed mineral products" – and gives as examples the automobile sector (now up to 120,000-180,000 vehicles a year), wine, and tourism!<sup>159</sup> What are the realities? Firstly, gold production and export has dropped off considerably. In 1991 the mines produced 562 metric tonnes of gold. From then onwards output has fallen roughly 10% every year, and the value by an average of 4,6% a year. Production by 2004 was down to 282 tonnes,

---

<sup>153</sup> Neva Makgetla, *Business Day*, 8/4/2005

<sup>154</sup> *Business Report*, 8/320/05

<sup>155</sup> Jesmond Blumenfeld, in *Business Report*, 2/11/2005 and "SA's evolving foreign trade strategy: coherence or confusion?" in S. Buhlungu, J. Daniel, R. Southall and J. Lutchman, *The State of the Nation: South Africa 2005-6*, (HSRC Press, 2006), pp. 427-429; Marais, *Limits to change*, p. 121

<sup>156</sup> D. Kaplan, "Manufacturing in SA over the last decade: a review of industrial performance and policy", *Development Southern Africa*, 21, 4, 2004, pp. 623-4

<sup>157</sup> Marais, *Limits of change*, p. 121 from MERG, p. 241, table 7.4

<sup>158</sup> Jones, "External trade", pp. 358, 361. See also Hirsch, *Season of Hope*, p. 113

<sup>159</sup> Hirsch, *Season of Hope*, p. 236

a mere 14% of world production.<sup>160</sup> Platinum exports overtook gold in value in 2000 and were R33,2 billion in 2004 (a rise of 15,6% over 2003) whereas gold was only R29, 3 billion (a drop of 11,5% from 2003).<sup>161</sup> In 2000 gold and “precious metals and stones” (platinum and diamonds) remained the top two exports by value however.

In 2000 four manufactured products had moved into the top 10, and two processed metals. Iron and steel and coal remained respectively third and fourth, but automobiles and parts had moved into fifth place, machinery from 8<sup>th</sup> to 6<sup>th</sup> place, and ores had dropped to 7<sup>th</sup> place. Aluminium had moved into eighth place (with a seven-fold increase since 1990) as the result of the ALUSAF refinery. Electrical machinery and inorganic chemicals were 9<sup>th</sup> and 10<sup>th</sup> respectively. Lower down the table, aircraft and parts, rubber products had shown big growth, though from a small base.<sup>162</sup> The machinery, aircraft, and even vehicles appear to have been predominantly destined for the opened up African market. Exports to Africa increased from 4% of total exports in the early 1990s to 16% in 2003, which appears to be a ceiling.<sup>163</sup> In 2003 precious metals remained top with 23,9% of exports and iron and steel second with 12%. Automobiles were in 3<sup>rd</sup> place with 9,8%; nuclear reactors (surprisingly) in 4<sup>th</sup> with 6,5%. There followed: minerals and fuel oils (6,2%); fruits and nuts (3,4%); ores, slag and ash (3,3%); aluminium products (3,0%); beverages (2,2%); electrical machinery (2,0%).<sup>164</sup>

Formally, therefore, there was substantial increase in “manufactured” exports. Between 1988 and 1996 they rose from 5 to 20% of total exports.<sup>165</sup> Between 1990 and 1995 they increased in real terms by 5,4% per annum and then by 11,6% per annum between 1995 and 2000 -- exceeding GEAR’s projection of 10,8%, though largely, according to Terreblanche, because of the fall of the rand. The contribution of manufacturing to total non-gold exports rose from 39,5% in 1990 to 56,2% in 2000.<sup>166</sup>

But there are qualifications to be made. The automobile industry, flagship of the government’s export strategy and heavily subsidized by government, has undoubtedly done well. From fifth in 2000 it moved into 3<sup>rd</sup> position in 2001,

---

<sup>160</sup> *Sunday Times*, 2/10/2003; *Financial Mail*, 15/4/2005; Jones, “External trade”, pp. 358, 361. See Hirsch, *Season of Hope*, pp. 112-3

<sup>161</sup> *Sunday Times Business Times*, 22/5/2005. See also Jones, “External trade”, pp. 358, 361; Hirsch, *Season of Hope*, p. 236

<sup>162</sup> Jones, “External trade”, pp. 358, 361. See also Gelb, “Overview of the SA economy”, p. 396

<sup>163</sup> Jesmond Blumenfeld, in *Business Report*, 2/11/2005 and “SA’s evolving foreign trade strategy”, pp. 427-429; A. Black and B. Kahn, “Growing without gold? SA’s non-traditional exports since 1980” (Mimeo, Dept of Economics, UCT, 1998) quoted by M. Altman, “The state of employment” (2004), p. 175

<sup>164</sup> Naledi, *SA country and sector analysis*, February 2004, p. 10

<sup>165</sup> Black and Kahn, “Growing without gold?” as quoted by Altman, “State of employment”, p. 175

<sup>166</sup> McCarthy, “Manufacturing during the 1990s”, p. 180; Terreblanche, *Inequality*, p. 117. See also Hirsch, *Season of Hope*, p. 105 (who claims a growth of 10% a year)

comprising 8,6% of total exports in that year and 9,8% in 2003.<sup>167</sup> According to the Economist Intelligence Unit, the volume of vehicle exports increased at an average rate of 41% between 1996 and 2003.<sup>168</sup> But as COSATU economist Neva Makgetla has pointed out, the auto industry depends on imported inputs and has only a limited multiplier effect on the economy.<sup>169</sup> Moreover, despite the increase in exports, there has been no increase in jobs in the car industry. Moreover again, the strengthening of the rand in recent years threatens these exports.

Secondly, South Africa's share of world manufacturing exports declined from 0,5% in 1980 to 0.3% in 1999.<sup>170</sup> The third qualification relates to the composition of the 'manufactured' exports. A study in 1998 noted that the majority of "manufactured" exports (62%) were still material-intensive products such as beneficiated iron and steel, processed chemicals, processed foods, paper and paper products and non-ferrous metals.<sup>171</sup> Moreover, very capital-intensive metal beneficiation (especially steel and aluminium) continues to account for a high proportion of 'manufactured' exports. At the R7, 2 billion ALUSAF refinery (supported by at least R700 million of taxpayers money as well as cheap electricity) each job was created at the cost of R3 million. The R3 billion Columbus stainless steel refinery generated no new net jobs. (In each case the 'movers and shakers' were SA conglomerates: Anglo American, Sanlam, GENCOR etc).<sup>172</sup> Thus minerals and metals contribute two-thirds of exports but only about 10% of GDP and employment.<sup>173</sup> It seems that this was a consequence of the policies of the director-general of the Department of Trade and Industry, Zaverh Rustomjee, who believed that South Africa should exploit its 'proven strengths' in the minerals/energy complex as a alternative (or at least a preliminary) to promoting labour-intensive manufacturing.<sup>174</sup>

According to a recent study of trade, growth in non-gold exports accelerated in the mid-90s but fell away sharply thereafter, even contracting in 2002 and 2003 – displaying an average annual growth rate of 6,1% between 1994-2003. Attempts at promoting manufacturing exports have been weak, with their

---

<sup>167</sup> *Sunday Independent*, 25/2/2001; Naledi, *SA country and sector analysis*, February 2004, p. 10. See also Gelb, "Overview of the SA economy", p. 396

<sup>168</sup> Economist Intelligence Unit, *Executive Briefing: South Africa*, 29/2/2004

<sup>169</sup> Neva Makgetla, *Business Day*, 8/4/2005

<sup>170</sup> Jesmond Blumenfeld, in *Business Report*, 2/11/2005 and "SA's evolving foreign trade strategy", p. 429; D. Kaplan, "Manufacturing in SA over the last decade", p. 625

<sup>171</sup> See Black and Kahn, "Growing without gold?" as quoted by Altman, "State of employment", p. 175. As Fine and Rustomjee point out (*The Political Economy of South Africa*, pp. 76-90, semi-manufactured goods are not manufactures but commodities. See also Hirsch, *Season of Hope*, p. 117

<sup>172</sup> Neva Makgetla, "The post-apartheid economy", p. 272; Bond, *Elite Transition*, p. 37. See also Gelb, "Overview of the SA economy", p. 395

<sup>173</sup> Neva Makgetla, *Business Day*, 9/9/2005

<sup>174</sup> Hirsch, *Season of Hope*, pp. 119-125.

performance only marginally better than that of total exports.<sup>175</sup> Gelb confirms that the main increase in exports has been in basic processed goods.<sup>176</sup>

In the recent past the share of refined metals in total exports has risen: from 34% in 2002 to 48% in 2004 in current dollars and excluding gold sales.<sup>177</sup> At the start of 2005 it was bulk commodities – coal, iron ore, base-metal copper, together with nickel, zinc, manganese – that were doing well in exports to China.<sup>178</sup> These moreover are the commodities that the government intends to try to boost through investment growth of 10% a year for next decade to China.<sup>179</sup> This, moreover, is the basis behind many of the most-heavily financed infrastructural projects in ASGISA, for example the stimulation of mining in Sekhukuniland, and even the upgrading of the Gauteng-Durban transport corridor.<sup>180</sup> What is the difference from the re-direction of the RDP Fund under GEAR to the Maputo corridor, the Fish River, Saldanha, Coega, etc, mainly to benefit capital-intensive industry.<sup>181</sup> Neva Makgetla points out the risks of a crash of commodity prices, and opposes this to an industrialization strategy to create new jobs with a bias towards labour-intensive industry and services.<sup>182</sup>

The government has thus far failed in its efforts to base growth on export-led developments in manufacturing industry. In 1995 the ISP maintained that the economy remained “strongly dependent upon our natural resource base for our foreign exchange; manufacturing remains a net user of foreign exchange.”<sup>183</sup> It would seem that is still the case today.

### **The balance of payments**

Between 1994 and 2003 the average deficit in the current account of the balance of payments was small, never rising above 2% of GDP.<sup>184</sup> This is because, on the whole, imports were relatively low because of a lack of capital investment. Indeed in 1999 there was a surplus on the trade balance of R18,94 billion, and of R22,09 billion in 2000 and R18,94 billion in 1999.<sup>185</sup> From 1995 to 2002 imports rose only 18% in volume terms. Between 2002 and 2004, however, imports rose by 23% in volume terms. The fastest growth was in transport equipment, as well

---

<sup>175</sup> Absa/SA Financial Sector Forum, *SA's foreign trade*, 2004; SA Reserve Bank, *Quarterly Bulletin*, 2004 cited by Jesmond Blumenfeld, in *Business Report*, 2/11/2005 and “SA's evolving foreign trade strategy: coherence or confusion?” in S. Buhlungu, J. Daniel, R. Southall and J. Lutchman, *The State of the Nation: South Africa 2005-6*, (HSRC Press, 2006), pp. 427-429

<sup>176</sup> Gelb, “Overview of SA economy”, p. 396

<sup>177</sup> Neva Makgetla, *Business Day*, 8/4/2005

<sup>178</sup> *Sunday Times Business Times*, 20/2/2005

<sup>179</sup> *Business Day*, 8/9/2005

<sup>180</sup> See *Business Day*, 7/2/2006

<sup>181</sup> Bond, *Elite Transition*, pp. 36-7

<sup>182</sup> *Business Day*, 9/9/2005

<sup>183</sup> Joffe et al, *Improving manufacturing performance in SA*, p. 49

<sup>184</sup> Gelb, “Overview of the SA economy”, p. 390

<sup>185</sup> *Business Day*, 1/2/2001

as in appliances and other consumer goods. Capital goods (machinery and equipment) stayed static at about one fifth of total imports – down from 25% in mid-1990s.<sup>186</sup>

South Africa's recent GDP growth has been due mostly to consumer spending, based on the lowering of interest rates, not to investment. Hirsch writes of it as South Africa's first boom based on a 'broad-based' expansion of consumption. But it is among the white and black upper class and middle-class, spending on credit, importing luxury and hardware goods (digital cameras, DVDs, etc) which leaves the poor completely out. Hirsch says that domestic producers can take advantage of it by competing with Korean refrigerators or European cars – but the cost structures do not allow this.<sup>187</sup>

As a result of this, the current account of balance of payments turned from surplus in 2002 to record deficits – annualized at R22,1 billion (2,84% of GDP) in the fourth quarter of 2003 and at R47 billion (3,7% of GDP) in the second quarter of 2004. For 2004 as a whole, the current account deficit was R44 billion, or 3,2% of GDP – a 23 year record.<sup>188</sup> In the first quarter of 2005 the deficit rose to 3,8% of GDP, fell to 3,4% in the second quarter, and rose to 4,7% of GDP in the 3<sup>rd</sup> quarter. It was projected to increase to 5% for the year as a whole.<sup>189</sup> This was due to increased imports combined with a fall-off of exports because of the strength of the rand (see above under exports).

Thus far capital inflows – though mainly through “hot” portfolio investment that can be rapidly withdrawn, leading to rand depreciation and rising inflation – have meant a surplus in the overall balance of payments. Thus up to July 2005, there was a flood of foreign portfolio investment – over R40 billion, with R33 billion into equities and the balance into bonds.<sup>190</sup> Foreign exchange reserves towards the end of 2005 were some \$20,6 billion – about 4 months worth of import cover. Though they have more than doubled since the start of 2003, they are not yet at the conventional measure of adequacy: 6 months of export cover, and would provide feeble protection against a run on the rand.<sup>191</sup>

If state infrastructural investment takes off, as is envisaged with ASGISA, and even more if this stimulates private investment, it will perhaps draw in more hot money at first, but then tend towards depreciation of the rand, withdrawal of hot money, leading to rising interest rates, the choking off of growth, and renewed crisis. Questioned last November about obstacles to growth in connection with ASGISA, deputy president Phumzile Mlambo-Ngcuka said that the volatility of the currency was one but the government's options were limited

---

<sup>186</sup> Neva Makgetla in *Business Day*, 8/4/2005

<sup>187</sup> Hirsch, *Season of Hope*, pp. 259-260

<sup>188</sup> *Financial Mail*, 13/5/2005

<sup>189</sup> *Business Report*, 3/10/2005; *Business Day*, 12/12/05; *Business Day*, 30/12/05; *Business Day*, 6/1/2006

<sup>190</sup> M. Power in *Financial Mail*, 26/8/2005

<sup>191</sup> *Financial Mail*, 15/4/2005; 13/1/2006

beyond building up foreign reserves.<sup>192</sup> She did not even mention the possibility of reintroducing exchange controls to stabilize the currency!

All this, moreover, is predicated on the world economy continuing to grow. If, for example, China stops financing the increasing US debt, the prospects for world economic recession would dramatically increase, and South Africa would not escape.

### **Manufacturing industry**

Despite the government's export-oriented strategy to promote manufacturing, the contribution of manufacturing in the economy has steadily diminished under the ANC government: from 21,2% of GDP in 1994 to 18,8% in 2002 to 16,4% in 2005.<sup>193</sup> During the 1990s the mean growth of manufacturing production was 0,3% per annum and employment had decreased to 81% of its 1990 level by 1999.<sup>194</sup> It has become considerably more capital intensive: output per worker in 2000 was 32% larger than in 1990 and capital-intensity 63% higher in 2000.<sup>195</sup> Per capita output has declined in textiles, electrical machinery, glass products, printing and publishing, fabricated metal products, machinery and equipment, furniture, clothing, beverages, field crops, animal products.<sup>196</sup>

In September 2003 Dave Kaplan, the "regulationist", major advocate of the ISP's manufacturing export-led growth strategy, and subsequently chief economist at the Department of Trade and Industry, admitted that SA's manufacturing performance since the 1990s had been below par and that the Department's incentive strategies to boost the sector had not been effective. Growth in manufacturing value added in the 1990s (1,2% a year) was only marginally higher than in the 1980s (1,1%). Labour-intensive sectors such as food and beverages and clothing and textiles had the worst average growth. Controversially, he also questioned the success of the car industry – in which productivity, he claimed, was not much higher than other sectors of manufacturing.<sup>197</sup>

Manufacturing performance, writes another economist, is "still far below the expectation for a sector that should remain a force for growth in a developing economy... the volume of production has shown no clear signs of developing a new upward-sloping trend line"<sup>198</sup> Economists have spoken to parliament's

---

<sup>192</sup> *Sunday Times Business Times*, 27/11/2005

<sup>193</sup> Bond, "From racial to class apartheid"; C. McCarthy, "Manufacturing during the 1990s: facing up to trade liberalization" *SA Journal of Economic History*, 18, September 2003, p. 175; *Sunday Times Business Times*, 18/10/1998; *Business Day*, 29/7/2005; *Business Report*, 30/11/2005

<sup>194</sup> Naledi, *SA country and sector analysis*, February 2004, p. 4

<sup>195</sup> McCarthy, "Manufacturing during the 1990s", p. 176. See also the graph in Naledi, *ibid*, p. 21

<sup>196</sup> Bond, "New Gelb/contraGelb"

<sup>197</sup> *Business Day*, 9/9/2003. See D. Kaplan, "Manufacturing performance and policy in South Africa: a review" (UCT, Development Policy Research Unit, School of Economics, 1993)

<sup>198</sup> McCarthy, "Manufacturing during the 1990s", pp. 174, 184

finance committee of de-industrialisation, of a low level of value-added performance and high household spending on imports.<sup>199</sup>

Instead it is 'financial and business services' – i.e. finance capital – which has increased its share – from 14,8% in 1991 and 16,3% in 1994 to 19,5% in 2005.<sup>200</sup> Bell and Madula regard this rise in finance, insurance, real estate etc as a “natural and beneficial transition from the old to the new economy”.<sup>201</sup> In reality it is the consequence of neo-liberal restructuring, of the change from investment in production to investment in forms of speculation, a consequence of “chronic over-accumulation of capital and the persistently uncompetitive standing that South Africa as a stagnant, massively unequal site of production and consumption maintained in the world rankings.”<sup>202</sup> Almost certainly, though as Bond points out it has not been thoroughly researched, there is excess capacity in many industrial sectors.<sup>203</sup>

### **Mbeki's turn?**

According to spokespeople for government, the neo-liberalism of GEAR was abandoned in 2001, with the signal coming in Mbeki's February 2001 state of the nation address to parliament, which spoke of greater government intervention to spur growth and to reduce poverty. Hirsch goes so far as to write that from 2001 “the South African state slipped into Keynesian mode”.<sup>204</sup> Even Naledi has argued that the budgets from 2000/2001 represent “a major shift in the Government's policy and one that has been applauded by COSATU” and that the growth of government capital investment by 4,6% in 2002 was “reversing a long term government investment decline tolerated by the apartheid government.”<sup>205</sup> Cronin, as already mentioned above, dates the turn to state-investment as the catalyser of growth to 2002.<sup>206</sup>

This “turn” away from neo-liberalism is supposed to be reflected in the growth of the budget deficit – from 1,4% (2001-2) to 2,1% (2002-3), to 2,4% (2003-4) to 3,1% (2004-5) and to 3,1% in 2005/6. However the 2002/3 budget deficit was in the end reduced to 1,1%, the 2004/5 budget deficit was reduced to 1,5%, and

---

<sup>199</sup> *Business Day*, 2/3/2005

<sup>200</sup> *Sunday Independent*, 25/2/2001; *Business Day*, 2/3/2005; *Business Day*, 30/11/2005

<sup>201</sup> T. Bell and Nkosi Madula, “The manufacturing industry, 1970-2000” in Stuart Jones, (ed), *The decline of the SA economy*, (Cheltenham, 2000), p. 125

<sup>202</sup> Bond, “From racial to class apartheid”; Bond, *Elite Transition*, p. 98

<sup>203</sup> Bond, “New Gelb/contraGelb”

<sup>204</sup> Hirsch, *Season of Hope*, p. 259. See also J. Streak and C. van der Westhuizen, “Fitting the pieces together: a composite view of government's strategy to assist the unemployed in SA 1994-2004”, (IDASA, Budget information service, 12/10/2004), pp. 22-25

<sup>205</sup> Naledi, *SA country and sectoral analysis*, pp. 16, 19. This is also the standpoint taken by COSATU, *2005-2006 People's Budget*, p. 6. See also Terreblanche, *Inequality*, p. 146.

<sup>206</sup> Cronin, “The people shall govern – class struggles and the post-1994 state in South Africa” (Unpublished paper presented to AIDC Freedom Charter conference, Cape Town, November 2005)

the 2005/6 budget deficit announced this week was 0.5% -- because of a revenue over-run of R41 billion!<sup>207</sup> Rather than spending the excess on increasing social delivery, Manuel chose to hand out some R19,1 billion in taxcuts, and to maintain the 2006/7 and future deficits around 1,5% or less.<sup>208</sup> Writing in 2004, Gelb, in general a defender of government policy, admitted that “the primary surplus (revenue less non-interest spending) has actually declined since 2001, suggesting policy has remained contractionary, rather than becoming expansionary as advertised.”<sup>209</sup> This is because the South African Revenue Service has been consistently collecting more tax than is budgeted for, some R18, 2 billion in 2004/5 and some R30 billion in 2005/6 for example.<sup>210</sup> But rather than channel this into extra social spending Finance Minister Manuel, with the support of the cabinet, has consistently doled it out in tax cuts. Over the last five years, in fact, there have been tax cuts of R70 billion, much of it benefiting companies and the rich.<sup>211</sup> The *Financial Mail* calls for further tax cuts on companies in the 2005/6 budget!<sup>212</sup> Presenting the Medium-Term Budget Policy Statement in October Manuel made the incredible remark that the government would allow the budget deficit to rise -- if there were enough plans for infrastructure projects that warranted funding. He said “South Africa has bundles of cash available to ramp up the development of infrastructure, but doesn’t have the imaginative and detailed plans needed to make the necessary upgrades to its urban and rural areas a reality.”<sup>213</sup>

Now the government has launched ASGISA. In May last year, writing in *ANC Today* (6/5/2005) Mbeki was drawing on the example of the growth of the Irish economy in the 1990s, based on a ‘social compact’ between business, government, and trade unions.<sup>214</sup> An Irish economist responded by pointing out that Ireland provided a convenient platform for US multinationals into the European Union (EU), particularly in computers and pharmaceuticals, particularly because of its English-speaking and highly educated workforce. The take-off since the mid 1990s has been at huge cost to the Irish working class. While the share of wages in EU GDP fell from 72% in 1987 to 68,3% in 2000, in Ireland it fell from 71% to 58%. A two-earner family is a prerequisite for survival. Irish workers are subject to continual demands from the employers for more flexibility, and the unions give the employers a free hand to intensify work

---

<sup>207</sup> *Business Day* 6/4/2005; *Business Day*, 26/10/2005; Hilary Joffe in *Business Day*, 10/2/2006

<sup>208</sup> *Cape Times*, 16/2/2006; *Business Day*, 16/2/2006

<sup>209</sup> Gelb, “Overview of SA economy”, p. 374

<sup>210</sup> See, for example, *Business Day*, 6/4/2005; *Sunday Times Business Times*, 30/10/2005; *Business Day*, 1/11/2005

<sup>211</sup> Iraj Abedian, *Business Report*, 29/6/2005; COSATU, *People’s budget, 2005-6*, p. 34. R9,9 billion in 2000/2001; R8,3 billion in 2001/2; R15,2 billion in 2002/3; R13, 3 billion in 2003/4; R10 billion in 2005/6

<sup>212</sup> *Financial Mail*, 10/2/2006

<sup>213</sup> *Sunday Times Business Times*, 30/10/2005

<sup>214</sup> See *Sunday Independent Business Report*, 8/5/2005

efforts. Irish workers have one of lowest holiday entitlements in Europe. In 2001 the Irish Mental Health Association found that 73% of people reported that life was more stressful than five years previously. The state takes no responsibility for child-care, and lower taxes than the rest of Europe mean that public services like health care suffer.<sup>215</sup> The situations of Ireland and South Africa are in no way comparable, and yet those are apparently the sort of conditions that Mbeki would like to impose on the people of South Africa.

Phumzile Mlambo-Ngcuka, presenting ASGISA in early February, said it aimed to shift the economy away from commodity dependence" so as to limit the impact of (volatile) commodity prices on the economy. But "shift" the base of the economy to – what? The biggest single allocation in the three-year R372 billion package of infrastructure spending (R19,7 billion) goes to water in Limpopo province, to "stimulate mining in Sekhukuneland." Another big chunk is to go to improve the Gauteng-Durban transport corridor (which could also benefit commodity producers). Other big chunks will go not to consumer-goods manufacturing but to service industries: to tourism (supposedly creating 400,000 jobs by 2014) and to call centres (100,000 jobs by 2009). So the job-creating aspects consist in becoming a playground for people from richer countries, as well as servicing the multi-nationals by answering their customers phone calls! Transnet and Eskom are expected to spend 40% of their total of R131 billion capital spending on foreign procurement, which will require the generation of huge amounts of foreign exchange.<sup>216</sup> In addition there is a sort of shopping-bag of 'add-ons' for small and micro-enterprises, co-operatives and low-cost housing – but these are not prioritized.

Apparently NUMSA and the SACP have broadly welcomed ASGISA. COSATU qualified this by saying that ASGISA "only pays lip service to the issues of redistribution and inequality". Moreover Mlambo-Ngcuka herself is quoted by the *Mail and Guardian* as saying that "ASGISA is neither a new policy nor replaces GEAR" – it was merely a set of limited interventions intended to identify and unblock "binding constraints" on achieving a 6% economic growth rate by 2014.<sup>217</sup> Small wonder that the *Financial Mail* headlines its article on ASGISA "Old policy, new package".<sup>218</sup> Or that Terry Bell headlines his article "Gear was a reversal of RDP: Asgisa is more of the same" – and quotes SAMWU general secretary Roger Ronnie that ASGISA, like GEAR, says that growth comes before distribution, and Sampie Terreblanche as a "growth strategy to enrich the rich further."<sup>219</sup> Or that Neva Makgetla's is headlined "Is growth plan the main course or just a starter?" – and that she points out, with substantial

---

<sup>215</sup> Kieran Allen, a senior lecturer in sociology at University College, Dublin and author of *The Celtic Tiger: the myth of social partnership in Cape Times Business Report*, 25/5/2005

<sup>216</sup> *Business Day*, 7/2/2006; *Financial Mail*, 10/2/2006

<sup>217</sup> *Mail and Guardian*, 10-16/2/2006

<sup>218</sup> *Financial Mail*, 10/2/2006

<sup>219</sup> *Business Report*, 10/2/2006

understatement, that ASGISA “seems inadequate to reach its targets of halving unemployment and poverty by 2014.” How can the mining industry, she asks rhetorically, contribute to shared growth? “The proposed infrastructure investments support the traditional capital-intensive economic centres, especially mineral exports.”<sup>220</sup> Let us not forget also that last November Mlambo-Ngcuka warned that she would present a proposal for “independent labour market review to determine the scale of the unemployment crisis and assess the unintended consequences of labour legislation” – a euphemism for a new attempt to undermine the Labour Relations Act and the Basic Conditions of Employment Act by introducing what business wants, a two-tier labour market.<sup>221</sup>

### Consequences of ANC economic policy

Hirsch and (mostly) Gelb regard GEAR, as a ‘success’ – at least in the achievement of “macroeconomic stability”, and in “fiscal policy.”<sup>222</sup> But (as Bond among others has pointed out) far from ‘stability’, the volatility of the rand – depreciating by 25% in four months in 1996, depreciating by 30% in two months in 1998, depreciating by 25% in five months in 2001, and then appreciating by 45% to mid-2003 – and, with this, the volatility of capital inflows and outflows has created serious instability.<sup>223</sup> In fact a survey conducted by Kaplan as to the reasons why businessmen were not investing found that ‘fluctuations in the exchange rate’ was the most important constraint (some six percentage points above ‘labour regulations’).<sup>224</sup> Indeed even Gelb is forced to admit that “The inconsistent signals to producers provided by interest rate and exchange rate fluctuations have undermined any positive growth impact of successful stabilization of the fiscal deficit and inflation rate”<sup>225</sup> In 1998 Malaysia, Chile, China and India imposed exchange controls and survived the financial crisis far better than those who did not.

It reveals the distance of the ANC government from the people of South Africa that it should regard fiscal policy as a ‘success’ when it involved cutting back social spending at a time when there were massive increases in unemployment and inequality around the country. (see chapter 14) In 1991 Gelb had written that a neo-liberal export-oriented strategy (which was taken to its extremes in GEAR) would “reinforce and extend the dualistic structure of South

---

<sup>220</sup> *Business Day*, 10/2/2006. See also Hilary Joffe in *Business Day*, 7/2/2006

<sup>221</sup> *Sunday Times Business Times*, 27/11/2005

<sup>222</sup> Hirsch, *Season of Hope*, p. 259; Gelb, “Overview of SA economy”, p.373

<sup>223</sup> Bond, *Elite Transition*, p. 193; Bond, “From racial to class apartheid”, *Monthly Review*, March 2004

<sup>224</sup> Kaplan, “Manufacturing performance”, p. 41

<sup>225</sup> Gelb, “Overview of SA economy”, p. 372

African society... income inequalities amongst blacks, and indeed overall, would probably widen”— yet by 2003 he could applaud the ‘successes’ of GEAR!<sup>226</sup>

The same spokespeople for government tend to ignore or explain away the manifest failure of GEAR to reach its other targets.<sup>227</sup> GEAR promised that 1,3 million jobs would be created between 1996 and 2000 – in fact at least half a million formal jobs were lost in that period. (see chapter 14). GEAR predicted 6,1% growth in 2001: in fact growth in that year was a mere 2,2%. Real government investment grew at 1,8% instead of the projected 7,1% and real private sector investment at 1,2% instead of the projected 11,7% (see above on investment).<sup>228</sup> Manufacturing and mining have gone into decline, in terms of jobs and of output, and the pattern of South Africa’s exports has not been transformed (see above). In fact the austere measures of government under GEAR – low spending and high interest rates – inevitably cut demand and thus discouraged productive private investment, because there were no profits to be made through it.<sup>229</sup> Even Hirsch has to admit that cuts in government spending slowed growth.<sup>230</sup> As a result of the crisis of the economy which emerged in the 1970s and which has not been resolved by GEAR, the per capita GNP, for example, was lower in real terms in 2001 than it was in 1972.<sup>231</sup> As Neva Makgetla, a COSATU economist, has written: “The strategies adopted by key sections of capital in response to the opening of the economy and the end of apartheid have deepened dualism and inequality”.<sup>232</sup>

Since then, growth has increased, to perhaps 5% a year in 2005 – largely based on consumer spending and consumer debt -- but this has not led to substantial increases in employment, nor to the recovery of manufacturing industry, nor to big increases in investment, nor to a substantially improved trade performance. In 1995 the Industrial strategy project wrote that the aims of an industrial strategy were to create employment, to increase investment, to

---

<sup>226</sup> Gelb, *SA’s economic crisis*, p. 30. See Marais, *Limits of change*, p. 172

<sup>227</sup> Thus Hirsch, *Season of Hope*, 108 tends to blame the failures of GEAR on the Reserve Bank and the ‘Asian etc crises’ and also writes (p. 101) “The [government’s] intention to locate GEAR within a broader growth and development strategy receded into the background until 2003, and debates on GEAR tended to assume that it was the alpha and omega of the government’s economic policy” – a singular feat of forgetfulness by the government between 1996 and 2003! He also has a very weak explanation of the failure of investment, which totally ignores the main purpose of capitalist investment – to make a profit: *Season of Hope*, pp 240-242

<sup>228</sup> Terreblanche, *Inequality*, p. 117

<sup>229</sup> See for example N. Natrass, “High productivity now: a critical review of South Africa’s growth strategy”, *Transformation*, 45, 2001; Terreblanche, *Inequality*, p. 118; Marais, *Limits of change*, pp. 163-4

<sup>230</sup> Hirsch, *Season of Hope*, p. 106

<sup>231</sup> N. Natrass, “The state of the economy: a crisis of employment”, J. Daniel, A. Habib and R. Southall, (eds), *State of the Nation: South Africa 2003-4*, (HSCR, 2003), pp. 143-4

<sup>232</sup> “The post-apartheid economy”, *ROAPE*, Volume 31, No 100, June 2004, p. 264

improve trade performance, and to raise productivity. In respect of at least the first three of these, the economy has failed.<sup>233</sup>

Hirsch and other spokespeople for government have written that the fruits of GEAR were only reaped after its formal ending, in 2000.<sup>234</sup> Cronin on the other hand, while identifying the three phases of post-apartheid economic policy as a “progressive modernizing project”, concludes that, “relative to the transformational potential of the 1994 conjuncture, this project represents a serious strategic setback for the working class (and the national democratic revolution).”<sup>235</sup> We can put this more bluntly. The last ten years and more have seen an economic *counter-revolution* in democratic guise – a *counter-revolution* in subordinating the needs of the majority of South Africans to the dictates of capitalist profit. Despite GEAR, the government has found no solution to the contradictions of the crisis of over-accumulation – with its correlates of increasing unemployment and inequality -- that has beset the economy since the 1970s.

### **Towards a solution**

Those who supported the turn to GEAR have criticized those who continue to advocate the alternative of ‘growth through distribution’. Thus Gelb criticises Bond, Terreblanche and Marais for ignoring “the nature and distribution of economic and political power in SA at the point of transition, and the structural problems – crisis – which beset the economy for two decades prior to the transition.... The transition was not a *tabula rasa* in which any policy option could be chosen.”<sup>236</sup> He continues that the RDP model – the ‘growth through redistribution’ model – as a “basic needs approach could not satisfy the accommodation [with business]... because it did not credibly address the external constraint on growth sustainability [namely “a significant increase in exports and capital inflows”] ... while its approach to capital reform.... such as breaking up the major business conglomerates... could not win business consent.”<sup>237</sup> In a similar way Freund reviewing Bond’s *Elite Transition* in what he described as “in some respects (but definitely not all)... a Left critique of Bond, rather than a defense of the status quo” maintained that the ‘social section’ of the

---

<sup>233</sup> Joffe, Kaplan, Kaplinsky and Lewis, *Improving manufacturing performance in SA: the report of the industrial strategy project*, (Cape Town: UCT press, 1995), pp. 15-25

<sup>234</sup> Hirsch, *Season of Hope*, p. 106

<sup>235</sup> J. Cronin, “The people shall govern – class struggles and the post-1994 state in South Africa” (Unpublished paper presented to AIDC Freedom Charter conference, Cape Town, November 2005)

<sup>236</sup> Gelb, “Overview of SA economy”, pp. 367-8

<sup>237</sup> Gelb, “Overview of SA economy”, pp. 368-370. When still a supporter of this ‘basic needs’ approach in 1990 he had already identified the first of these problems (Gelb, “Democratising”, p. 29): “In addition, a new growth model will have to overcome in one way or another ... the vulnerability of manufacturing output levels to external shocks, because of its dependence on imported equipment and intermediate inputs”

RDP (which Bond helped to write) was not “integrated in any sense with the economic section of the programme and thus how the delivery side was to be paid for was never made very clear... the danger could be spiralling inflation, serious debt problems and, in the end, intensified immiseration.”<sup>238</sup>

The basic problem identified here is that of capital goods -- historically imported into South Africa because of the lack of economies of scale to make their local production possible. *Any form of economic growth – whether through basic-needs-providing inward industrialization or through export-orientation – would have to address the problem of the provision of capital goods..* Historically in South Africa rapid growth has sucked in capital goods imports and tended to push the current account of the balance of payments into deficit, requiring inflows of foreign capital to ‘balance the books’ on foreign exchange.<sup>239</sup> Bond’s answer to this is that if foreign machinery is the cause of the crisis, the only alternative to paying for these through building up debt to the World Bank is delinking from the world economy.<sup>240</sup> It is unclear then where the needed capital goods would come from: they would have to be produced in South Africa. Since capitalists would not invest in them, this would need to be done by the state.

There is no shortage of money-capital in South Africa, as the inflated salaries of CEO’s and the real estate boom both go to show. The question is one of redirecting it. The ‘growth through redistribution’ strategy placed the emphasis on the state redirecting investment by breaking up the conglomerates. As Bond, in a critique of Gelb’s over-view of the economy has pointed out, the fact that this “could not win business consent” is obvious: the way out of that is through class struggle.<sup>241</sup> To take full advantages of the centralized planning implicit in the conglomerate structure, moreover, the best way would, rather than break up the conglomerates, be to *nationalize the commanding heights of the economy* (ABSA, Nedbank, First National, Old Mutual, Sanlam, Liberty Life/Standard, Anglo American, Rembrandt, SABMiller and the rest of the big monopolies) *under workers’ control and management*. At present, through Transnet, Eskom and the surviving share in Telkom etc the state and public corporations own 44% of the country’s fixed capital stock.<sup>242</sup> To add the assets of the big conglomerates would be entirely possible through a mass workers’ party passing legislation to that effect in parliament. Of course, pro-business organs like the *Financial Mail* regard nationalization as “a 1960s-style mantra nullified by history” – despite the fact that it is being looked to today as a way forward in

---

<sup>238</sup> Bill Freund in *Transformation*, 45, 2001, pp. 82-3

<sup>239</sup> This is the basis on which Hirsch, *Season of Hope*, pp. 121-2 criticises Bond’s (and Bell and Gelb’s) advocacy of inwards-oriented production for basic needs

<sup>240</sup> Bond, *Commanding Heights*, p. 34. On delinking see also for example Samir Amin, “SA in the global economic system”, *Work in Progress*, 87, February [or March!] 1993, pp. 10-11

<sup>241</sup> Bond, email of 25/7/2004 to DEBATE SA discussion list “New Gelb/contraGelb: ‘SA stagnates, rotting slowly’

<sup>242</sup> R. Rumney, “Who owns South Africa: an analysis of state and private ownership patterns”, in J. Daniel, R. Southall and J. Lutchman, *State of the Nation: South Africa 2004-5* (HSRC, 2005), p. 406

Venezuela and other parts of Latin America.<sup>243</sup> Since, therefore, nationalization would be resisted by big business, it would be necessary to defend that legislation through mass action in the workplaces and the streets.

SACP general secretary Blade Nzimande last October told the Black Management Forum in Sandton that South Africa needed to go back to the RDP, to wealth redistribution, greater social spending, and heavy investment in infrastructure, together with policies that created long-term jobs and sustainable livelihoods for the majority. Growth alone, even if it reached 6%, wouldn't necessarily translate into jobs. Where there was such a "huge wealth gap", even growth of 10% a year wouldn't help people without structural change.<sup>244</sup> Nzimande is right, but he needs to spell out clearly that this involves a struggle to nationalize the commanding heights of the economy under workers' control and management.

In other words, the strategy for inward-industrialisation to provide for the basic needs outlined in the RDP leads inexorably to a strategy for workers' power, workers' control of the economy, and workers' democracy. Those who believe that simply printing money would allow the state to 'kick-start' investment in Keynesian fashion within a continued 'mixed economy' to implement the directives of the RDP are in fact utopian. Bond acknowledges the influence on his analysis of Simon Clarke. Clarke pointed out in a book often cited by Bond that Keynesianism was replaced by monetarism because it was no longer compatible with the needs of capitalism, even in the most advanced centres of capitalism.<sup>245</sup> To imagine that Keynesian policies can be introduced in the dependent middle-income economy of South Africa *on a capitalist basis* is indeed, in Freund's words, to court "spiralling inflation, serious debt problems and, in the end, intensified immiseration." The ANC leaders elite-pacting with big business led inevitably in the conditions of the 1990s to their implementation of GEAR. That is why the RDP, in its left interpretation, never had a chance. The message is spelt out by Gelb himself: "the debates which took place in the early 1990s about economic models for the 'new South Africa' – the basic needs model...and the export-led manufacturing model... took place *within the framework* of this accommodation [between white big business and the ANC, involving the ANC committing to macroeconomic stability and international openness], and the RDP was itself formulated at the same time as policies for international openness."<sup>246</sup> (his emphasis)

The United Nations' *Human Development Report* on South Africa for 2003 mentioned the five neo-liberal assumptions behind the "economic and social policy approach of the new government". Three of them were that (a) integration into the benign global economy will enhance economic growth (b) the benefits of

---

<sup>243</sup> Editorial in *FinancialMail*, 10/2/2006

<sup>244</sup> *Business Day*, 14/10/2005

<sup>245</sup> Clarke, *Keynesianism*, especially Chapter 11.

<sup>246</sup> Gelb, "Overview of SA economy", p. 369

a high economic growth rate will 'trickle down' to the poor and (c) the restructuring of the economy should be entrusted to market-led economic growth. The authors concluded that this policy "was formulated under strong pressure from the corporate sector and its global partners" and continued "With the benefit of hindsight we have good reason to reject all five of these premises. All five are either false, or do not apply under South African circumstances. All five have their roots in the naïve optimism of the managerial elite of the corporate sector and its global partners about the benefits of the free market. All five are propagated by the corporate sector and its global partners in order to protect their vested interests, enhance their position of power and privilege, and promote their sectional and short-term financial interests.... Those responsible for these premises and the government's approach were highly unrealistic."<sup>247</sup> The other two premises were, I would disagree with the authors of the report, realistic – that South Africa has a high economic growth potential, and that a high economic growth rate will unlock the labour-absorption capacity of the economy. But this would only be on the basis of a workers' democracy building socialism, not on the basis of capitalism.

The 'organic crisis' which was identified in the 1970s in South Africa was not just a crisis of apartheid, but a crisis of *capitalism* in South Africa – a crisis of over-accumulation. It was not solved by GEAR, and it is also incapable of solution through Keynesian methods on the basis of capitalism.

The establishment in South Africa of state-ownership of the big monopolies (not every small or medium-sized business or spaza shop!) under workers' control and management and the institution of a planned economy would terrify big business internationally. However, particularly with the respect by the masses of the world for the victorious mass struggle against apartheid, and with the turn to the left in many sectors of the world (Latin America, among youth in the advanced capitalist countries etc) the example of a workers' democracy in South Africa would be enormously appealing, and, with today's communications technology, could inspire the international working class even more rapidly than the example of the Russian revolution did (including in South Africa – where it led to the birth of the Communist Party).

In the conclusion of his 1988 book on *Keynesianism, monetarism, and the crisis of the state* Simon Clarke wrote: "The necessity of socialism has never been more urgent. The objective conditions for a democratic socialist society have never been more fully developed. The concentration and centralization of capital has socialized production to an unprecedented degree. The computer, through which monetarism has been able to perfect the subordination of society to the alienated rule of money, provides the instrument that makes it possible to bring the complex apparatus of social production under democratic control.

---

<sup>247</sup> UNDP, *South Africa Human Development Report 2003*

“The subjective conditions for socialism are also more fully developed than in any previous period of history. Despite political defeats, workers continue to express their resentment and their frustration, individually and collectively, and seek to realize their hopes and aspirations through trades unions and through the ‘new social movements’...Nevertheless the fact remains that the working class has suffered a massive political defeat, and the forces of popular resistance to monetarism are fragmented, demoralized and disorganized. The crisis of Keynesianism was not only a crisis of the state, it was also a crisis of socialism, both in its social democratic and its more radical variants. Monetarism provided a provisional resolution of the crisis of the state. Socialism has only just begun to address its crisis.

“There is no reason why socialism should not put itself back on the historical agenda, if only it can learn the lessons of its defeats. The fundamental lessons are three. First, the basis of socialism can only be the *socialization of production*. Only by bringing social production under social control can the contradictory tendencies of capitalist accumulation, that lead to the pauperization of growing masses of the world population, to the intensification of class struggle, to wars and to recurrent crises, be overcome. Second, socialism has to be *internationalist*. This is not dictated simply by the internationalization of capital, for the crisis is unleashing nationalist political and ideological forces that counter such internationalization. It is more fundamentally a political imperative. Nationalism is the supreme expression of the alienated form of the capitalist state, fetishizing the ‘illusory community’ of the nation against the emerging unity of the ‘real community’ embodied in the collective organization of the working class. Third, socialism has to be *democratic*. This does not mean that socialism should confine itself within the limits of the formal democracy of the capitalist state. The experience of state socialism and social democracy alike shows that the attempt to build socialism from above, on the basis of the illusory community of the capitalist state and the formalism of its democratic processes, soon leads the state to confront the real community of the democratic organizations of the working class as a barrier to socialism. The socialization of production cannot be divorced from the question of the political forms of such socialization”<sup>248</sup> (my emphasis)

Socialism means the socialization of production, and it has to be internationalist and democratic. Many books could be written to develop those ideas thoroughly: what is socialization of production, and how to ensure that it is democratic, for example. These were the ideas that Trotsky stood for consistently throughout his life until he was assassinated by Stalin. You cannot build socialism in one country: that should stand as the epitaph for the Soviet Union. The consequence is the usurpation of workers’ democracy by an unaccountable bureaucracy. In the early years of the Russian revolution, workers’ throughout

---

<sup>248</sup> Clarke, *Keynesianism*, pp. 359-360

Europe and elsewhere strove to emulate its example by overthrowing capitalism. They failed but, as Clarke emphasizes, despite also the *recent defeats* of the working class internationally and the setbacks to its consciousness, *conditions constantly impel a return to struggle*. The struggles presently taking place in Venezuela, Bolivia, and more widely in Latin America are an example.

One spark, like the Russian revolution, could once again light a prairie fire. Of course it's far easier to be filled with gloom – if a workers' state becomes bureaucratized without the spread of the revolution, then what is the point of the working class taking power in a backward country like South Africa? Some go even further – in the globalised world of the 1990s the nation-state has become impotent, so even nationalization is no answer.<sup>249</sup> Both point to the idea that the impoverished working class of South Africa must wait for the working class of the advanced countries to take power first (the idea on which the First and Second Internationals were based).

The idea that on the basis of capitalism South Africa can rise up to the standards of living of the advanced capitalist countries is the most utopian idea of all. To resolve the national question – to achieve equality with the people of those countries – it is necessary to take the plunge and overthrow capitalism. As Marx, the great internationalist wrote in the *Communist Manifesto* “the proletariat of each country must, of course, first of all settle matters with its own bourgeoisie”.

The national state does still have its own power. This was proved in experience by the ability of Malaysia, China, India, and Chile to impose exchange controls as a way out of the crisis of 1998. More theoretically, as the US Marxist Ellen Meiksins Wood noted in a critique of the book *Empire* by Michael Hardt and Antonio Negri, who were arguing (in her summary of their position) that “even if the state did once represent such a concentration of [capitalist] power and hence also a target of opposition, in today's globalised world, such possibilities of opposition no longer exist. What good are struggles at the point of production, when capital is organized in huge, transnational corporations? What good are political struggles when the nation-state is dead?” To which she responded that “surely the critical point about the ‘internationalisation’ of the state is that the nation-state is useful to global capital not to the extent that it is *unable* to ‘regulate economic and cultural exchanges’. On the contrary, it is useful precisely because it *can* intervene in the global economy and, indeed, remains the single most effective means of intervention. The essence of globalization is not the declining capacity but the unique *ability* of nation-states to organize the world for global capital...”

“The book even seems indifferent to the coercive power concentrated in the state. That indifference is reflected in a conception of ‘sovereignty’ that

---

<sup>249</sup> This was one argument among several used by Rob Petersen when he left the Marxist Workers' Tendency of the ANC, taking with him a number of good Marxists. Some have since become involved in the Treatment Action Campaign and other campaigns of reform.

allows Hardt and Negri to speak of the transfer of sovereign power away from the state... Capitalist appropriation still requires the support of extra-economic coercion, and a state operating at arms length is still required to supply the ultimate coercive force that capital needs but lacks. Capitalism is a uniquely anarchic system, and capital is unique among dominant classes in the degree to which it lacks direct coercive power. Yet capitalism, more than any other social form, needs regularity and predictability in its daily transactions, which can be guaranteed only by a closely regulated legal and political order. Capitalism also depends on extra-economic practices and institutions to compensate for its own disruptive tendencies, for the social ravages of the market, and for the propertylessness of the majority on which capitalist power depends.

"The trouble is that no form of sovereignty had yet been devised that can fill these needs apart from the territorial state, which functions on behalf of global capital no less than for local and national capital. The disconnection between the economic and political moments of capital not only makes it possible for capital to extend its economic reach but also requires it to rely on local states to serve its political needs...

"Even a moment's reflection shows that no transnational organization has come close to assuming the indispensable functions of the nation-state in maintaining social order, least of all the function of coercion that underlies all others. No conceivable form of 'global governance' could provide the kind of daily order or the conditions of accumulation that capital needs. The world today, in fact, is more than ever a world of nation-states. The political form of globalization (of Empire?) is not a global state or global sovereignty but a global system of multiple states and local sovereignties, structured in a complex relation of domination and subordination."<sup>250</sup>

The Russian Marxist Kagarlitsky approaches the question of the state from a different direction, stressing the continued relevance of nationalization. "The weakness of the left arises from its unwillingness to use the force of the state against the bourgeoisie. The growth in influence of transnational structures requires the creation of a counter-weight. But at the same time the new situation demands the radical transformation of the state, of its institutions and of its social nature. Traditional bourgeois democracy has shown that it cannot act as a serious counterweight to transnational capital, and it is therefore essential to step outside these bounds."<sup>251</sup>

In addition, in a lengthy and stimulating essay on "Is nationalization dead?" he stresses the need for it: "The rejection of nationalization signifies in practice the rejection of serious efforts to transform society. Unquestionably the existence of state property on its own does not yet constitute socialism. It does

---

<sup>250</sup> E. M. Wood, "A manifesto for global capital?", in G. Balakrishnan (ed), *Debating Empire* (London: Verso, 2003), pp. 62-69

<sup>251</sup> B. Kagarlitsy, "The state and globalisation" in Kagarlitsky, *The twilight of globalisation: property, state and capitalism* (London: Pluto, 2000), pp. 26-27

not automatically ensure either a more just distribution of national income or a more harmonious development. But without a strong state sector, resolving all these problems is impossible in principle.

“Trotsky, in his time, provided a good metaphor to illustrate this point: he compared state ownership of the means of production with the cocoon through which the caterpillar has to pass in order to become a butterfly. The cocoon is not the butterfly. Millions of larvae in their cocoons perish without becoming butterflies, but skipping the cocoon stage is impossible....

“The only way to break the economic power of large finance capital is through nationalization. Alternative strategies for modernization and restructuring then become possible. Only with the emergence of a state sector is it possible to win social control over the investment process.”<sup>252</sup>

At the same time the nation-state, along with private property, are social relations of capitalism that need to be transcended. There is, simultaneously with a struggle for the national state, the need to build links with the international working class and the oppressed around the world to spread the workers’ revolution, to other countries in Africa and the ‘Third World’ in general, and to Europe, the United States and Japan also. That is the real solution to the (small problem of the) shortage of capital goods production in South Africa, to the limits of the revolution – to achieve a harmonious, socially-owned, democratic, planned economy on an international scale, opening the way to a classless society of abundance.

---

<sup>252</sup> B. Kagarlitsky, “Is nationalization dead”, in Kagarlitsky, *Twilight of globalisation*, p. 55