Flaws in South Africa's 'first' economy

Martin Legassick

Department of History, University of the Western Cape

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Transcending two economies – renewed debates in South African political economy

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1 INTRODUCTION

'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, *A change of tongue,* 2003.*)*

There has been an enormous transformation of the South African state from a white-controlled and staffed apartheid repression 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 and 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 (McKinley 2004). 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 recognised 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 ANC leaders introduced the Growth, Employment and Redistribution (GEAR) programme with the claim that it would speed up economic growth. But 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% and rising to 6% by 2000 (Terreblanche 2002:117, Gelb 2005:367, Bond 2004). 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.

The government disputes this evidence. Government agencies such as Statistics South Africa (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 Patrick Bond (2004) points out, the 'correction' was not carried through consistently.

Straightening out the confusions and 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 (Jones and Inggs 2003, *Business Day* 22 June 1999, *Sunday Independent* 27 June 1999, *Sunday Times Business Times* 27 June 1999).

In 2005 Stats SA 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 were also revised upwards, from 3.5% to 4.6% for the first 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% (*Business Day* 30 November 2005, *Business Report* 30 November 2005).

In early 2006, the government announced a new plan – the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) – to achieve 6% growth by 2010. But what confidence can be placed in this plan? Rather, what is likely to be confirmed again is that while the capitalist system continues, the government will 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 by the 1970s already created 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, organised 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. However, is its leadership up to the task?

2 SOUTH AFRICA'S ACCUMULATION CRISIS

Trotsky's theory of permanent revolution 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 are worsened by it. In South Africa since colonial occupation, race has been the main form of division and oppression in society, and in the 20th century it was 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 (Inqaba ya basebenzi 1982).

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 (Legassick 2001). This is why the SACP can get away 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 (1990) and Patrick Bond (2000) 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 (2000) it was 'the post-war reintegration of South Africa into international capitalist circuits which fostered the crisis conditions that are so overwhelming today'.

The elements of the contemporary crisis were already identified by Marxists by the late 1970s. Rooted in the relation of the South African 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 overproduction – rooted in the incapacity of the apartheid economy to provide a market for expanding manufactures, and the inability of South African 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 falloff of new foreign investment, worsening the balance of payments crisis. A vicious cycle developed, barely eased by spasmodic increases in the gold price (to a peak of $864 in early 1980). This explanation – its core put forward by Simon Clarke in 1978 in an argument against the South African Poulantzians – was developed and rounded out by the Marxist Workers' Tendency of the ANC in the 1980s.

In the early 1990s Bond redeveloped Clarke's arguments into a similar explanation of the crisis in terms of overaccumulation, 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.

As subsequently summarised by Bond (1991:34–40 and Meth 1990), 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-peripheral countries, import-substitution industrialisation 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' (Bond 2000:237, 2005:15–24). In an 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 and ESKOM. 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, 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. Nattrass argues that the state had a choice of extending inward industrialisation 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 (Altman 2004, Nattrass 2004 and Hirsch 2006). In the 1980s the state began to reverse course on state investment and embarked on a privatisation programe, leading to the privatisation 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 rescheduling of foreign debt.

American 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. 'Overaccumulated 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 [and] hugely overbuilt commercial property markets' (Bond 1991:40–48, Bond 2000:Chapter 7 and Bond 2005:50).

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) had always tended towards 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% (Lewis 1995, Innes 1984).

3 DEBATING THE ROOTS AND MEANING OF CRISIS

Similar conclusions – of a crisis – had been reached earlier, in 1981, by John Saul and Stephen Gelb (1981) in their ground breaking book, *The crisis in South Africa*, though these were phrased more in terms of under-consumption, and 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 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 labour 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 (see also Simkins 1978, 1982).

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'.[1] 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 assemblyline production for a mass market. Racial Fordism was South Africa's version of this – import-substitution industrialisation based predominantly on the white market. Then Gelb placed more emphasis on the role of the balance of payments – as between mineral/agricultural exports and capital goods imports – than in his 1981 book. 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-ouput 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 (see Gelb 1987, 1991, reproduced by Marais 1998 and Murray 1994). Bond (1991), relying partly on Charles Meth, criticised Gelb's analysis for (a) being under-consumptionist in the sense of maintaining that the problem could be solved by pumping money into the economy 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 (1990:32–33), 'allows capital to slide too easily off the hook'.

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. 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'.

Clarke (1988:7–11) 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 structuralfunctionalism] leads it considerably to overemphasise 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 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.

In 1981 Saul and Gelb (1981:3–4) 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 Antonio Gramsci (1971:178) 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.

It is well known that in his prison notebooks, Gramsci (1971:276) 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 (1971:276) on the same theme reads, '[t]he 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'. It is significant that Saul and Gelb omitted, however, the immediately following sentence of Gramsci's (1976:276): '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* (my emphasis).

Instead of advocating revolution, Gelb (1987:35–36) adopted regulation theory and became more explicit about the political project ahead. 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. Marais (1998:37) followed Gelb in this, caricaturing the 'orthodox' Marxist definition of crisis: 'a terminal breakdown of the system which necessarily inaugurates profound social transformation'. 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.' 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 (Gelb 1987:36).

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 (1934): 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 concourse of the activity of the revolutionary proletariat, may be transformed into a social danger to the bourgeoisie* (my emphasis).

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, in 1991, *South Africa's economic crisis*, appeared in *Work in Progress*. 'Gracchus' (1991:45- 46) maintained that the economic trends group had become a 'project to rescue capitalism'. Capitalists 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'.

Gelb (1991:42–43) replied in an article entitled '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'. As if any 'agency' – working-class action – could not have altered this 'structurally imposed' situation.

Gelb, at the time a critic of neoliberal 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, Gelb (2005:368– 370) states, was to support the modification of the 'racial structure of asset ownership' – i.e., to support black economic empowerment (BEE). The ANC government, according to Terreblanche (2002:102), made a much more important concession: to relax exchange control so that the conglomerates could 'escape into globalism', meaning they could invest abroad in the world economy. Thus big capital in South Africa would become a player on the global stage, with blacks co-opted into the capitalist class.

4 ECONOMIC TRENDS, ISP, MERG AND 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 (1994), Hein Marais (1998), Patrick Bond (2005) and Sampie Terreblanche (2002). Alan Hirsch (2006), currently chief director of economic policy in the presidency, tells a different story, justifying the outcome in GEAR. 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 neoliberal 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 (2005) and Bond (1991, 2005), the National Party's 'econocrats' in the early 1990s were putting forward a neoliberal, privatising, 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 and cars. The main export-emphasis would be 'beneficiation of minerals and other commodities currently exported in a semi-processed form, together with other intermediate manufactures' (Gelb, 1990). They also promoted privatisation of industry and deregulation of financial markets. Gelb (2005:34) wrote that this strategy 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'.

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. This policy advocated 'inward industrialisation', 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'.

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 nationalisation, though the economy would remain mixed. However, as Gelb pointed out (1991a: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'.

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 formalised only at a May 1992 policy conference (Murray 1994, Hirsch 2006). Such proposals came under extreme attack as irresponsible '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 (1998:147– 148), '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 'nationalisation' disappeared from ANC documents (Murray 1994:20–21).

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 privatisation, 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 recognised the 'concentration of power in the hands of a few conglomerates' and called for greater control over the financial sector (Marais, 1998:149–150). At the end of 1992, however Cosatu issued a document, *Economic policy in Cosatu*, reaffirming 'growth through redistribution' and a policy of inward industrialisation (see Terreblanche 2002:88–89).

The May conference was speedily followed by the period of breakdown of negotitations and mass action between June and September 1992, precipitated by the Boipatong massacre and ended by the events in Bisho. This 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 neoliberal pro-business policies (privatisation rather than nationalisation; compelling international competitiveness through trade liberalisation; curtailing government spending through no tax increases and small budget deficits) that were agreed with the IMF as conditions for the November 1993 loan and were to be formalised in GEAR.

As Terreblanche (2002:97) put 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 not acknowledged'. 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 neoliberalism.

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, ISP economists such as Avril Joffe and David Lewis (1992:26) 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'.

Both Marais (1998) and Bond (2005) were critical, however, of the emphasis in their final product principally on export-orientation – 'Taiwan-style'. 'Many of the elements of the ISP plan,' writes Marais (1998:155–156), '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. Bond (2000:240) 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 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' (cited in Bond 2005:65–66).

The MacroEconomic Research Group (1993) 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' (University of London progressives) having too much influence on it (*Finance Week* 18 March 1993, Kentridge 1993 and Hirsch 2006). 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. The project was immediately attacked by Tito Mboweni of the ANC and by the pro-business media (Bond 2005:75–76, Marais 1998:160).

The ANC was already involved with the secret Letter of Intent to the IMF to secure a loan (Hirsch 2006:63).Hirsch (2006:55–57), chief director of economic policy in the presidency, disparages the report, which 'has been resurrected as an icon of the left'. He claims the report was 'less revolutionary than muddled'. He claims that most of its ideas were not ideologically controversial in the ANC, recognises 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.'

Yet it is also Hirsch (2006:77–91,103) 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. (These, moreover, were futile attempts to preserve the exchange rate of the rand in the face of the exodus of hot money. Bond [2005] 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 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 (Marais 1998:164).

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 (Marais 1998:181,185–186, Bond 2005:93– 96). 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), democratising 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 (for the theory of structural reform (see Saul 1991, Gorz 1973).

Hirsch's (2006:59-61) 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' (see Bond

2005:114–115), and therefore not in conflict with GEAR. Thus it can be interpreted by Hirsch (2006:61) also as an 'Asian-type heterodox policy that combined investment driven hard by the public sector with institutional reform and orthodox macro-economic stability'.

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 liberalisation, fiscal austerity or privatisation. As Terreblanche (2002:110, 112) writes, for them it was principally an election programme – 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 (2005:90–91), within days of the election Mandela falsely claimed that the RDP said 'not a word about nationalisation', Joe Slovo, Minister of Housing, contradicted it by saying that the government could not condone squatting, and ESKOM contradicted it by trying to raise foreign loans. The subsequent Green, and more specifically, the White Paper on the RDP diluted its content drastically, and emphasised neoliberal ideas (Terreblanche 2002:109, Marais 1998:179 and Bond 2005:97–98). 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 (Terreblanche 2002:115, Marais 1998:129). 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 (Marais 1998:160).

In March 1995 the financial rand was abolished, removing a key aspect of exchange control, and legitimising the relatively free movement of money abroad by big companies – to the detriment of investment in South Africa. Thus, in Bond's (2005:216) 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. In September 1995 the government produced a document justifying privatisation (Marais 1998:163, 174). When Mbeki told the 1998 SACP Congress that the RDP had not been departed from and that an audit would be done, Bond and Meshack Khoza (1999:188–195) did a systematic comparison of the directives of the RDP document with the processes of implementation. 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'.

In March 1996, Trevor Manuel became Minister of Finance. Three months later, the openly neoliberal policy of GEAR was introduced, without discussion on the ANC NEC, or consultation with Cosatu and the SACP, partners in the Tripartite Alliance (Marais 1998:160, Hirsch 2006:101). 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 privatisation programme, a two-tier labour market, and curbs on government spending. Interestingly enough, given the attempts of the ANC leadership in 2005 to reintroduce a two-tier labour market, Hirsch (2006:95) notes that at that time, Tito Mboweni, then Labour Minister, said it was an 'affront to democracy'.

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 privatisation, and create a more flexible labour market – all policies associated with IMF and World Bank 'structural adjustment programmes' (Bond 2005:78–84, Marais 1998:161– 164). '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 (2002:115), 'it is openly Thatcherite in content and tone'.

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 (Hirsch 2006:95, Pillay and Millward 1996). In his 1997 budget speech Manuel had the gall to describe promises to privatise, to make wages more flexible, to reduce the state deficit and to cut back public spending as 'deep transformation' – in reality neoliberal restructuring as opposed to the redistributive transformation promised by the liberation struggle (Terreblanche 2002:116, Adam, Van Zyl Slabbert and Moodley 1997:206). Hirsch (2006:69) 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 international finance, the ANC committed itself to policies approved by the same financiers' (for a rebuttal to Hirsch, see Bond 2005:189–191).

GEAR was justified by the government and mainstream economists on the grounds of the 'unsustainable' budget deficits (7,3% in 1992 and 10,1% in 1993) and the 'huge, growing government debt and interest burdens' (debt amounting to 48% of GDP in 1995/6 and interest payments approaching 22% of the budget in 1995) (Gelb 2005:370). Hirsch (2006:69) 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'.

But, as the NGO Alternative Information and Development Centre (AIDC) (1997, 1998) 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.

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 1978–1982 interest payments had been a mere 8.3% of the budget (Gelb 2005:370). 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 (2006:70–71, 258) 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'. 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 (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. This, moreover, would have led to a reduction of the high interest rates of the time, which (at least according to Hirsch 2006:241) were partly due to the level of government debt. 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 (Hirsch 2006:235).

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 (Marais 1998:162). 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 (*Sunday Times Business Times* 22 June 1997, *Sunday Times Business Times* 9 November 1997, *Cape Times* 10 November 1997).

5 PRIVATISATION AND BEE

Jeremy Cronin (2005) has identified three phases in the post-apartheid economy: 1994–1999, when macro-economic policy was assumed as the driver of growth, 1999–2002 when privatisation was supposed to be the key catalyst of growth, and post-2002 when infrastructural investment is the key catalyst – a policy which is to be continued in the infrastructural investment of AsgiSA. Let us now examine the second of these phases, adding 'black economic empowerment' to privatisation 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 privatisation and black 'economic empowerment' against that standard.

What is the record on privatisation? (See Bond 1994 for a fuller account.) 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. 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%. Of 13 million connected to fixed line telephones for the first time after 1994, 10 million were disconnected.

Today even poor people – who can afford a cellphone 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. Of these, 13 000 workers were supposed to be included in 'outsourced' entities, but only 2 000 of even these jobs still exist. Attempts by the government to cap fixed-line monopoly pricing were blocked by the owners. 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 privatisations, creating, for example, commercialised toll roads which are unaffordable for the poor. Air transport privatisation 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 an American manager on a short-lived contract. The privatisation of the Airports Company South Africa (ACSA) has led to security lapses and labour conflict. The ANC-aligned SATAWU has struck periodically in part over over its fears about further transportation privatisations. The increasingly corporatised rail service has shut down many feeder routes that, although unprofitable, were crucial to rural economies. How has this befinited the people?

In electricity generation, the parastatal Eskom, the world's fourth largest electricity producer, made redundant 30 000 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 American and British firms. Electricity rates for township customers have risen to unaffordable levels as crosssubsidies 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% cost-recovery policy during the late 1990s, preparing for a wave of privatisation of water and waste services.

Although this privatisation has so far applied to only 5% of municipalities, the pilot projects have been run by the world's biggest water companies (Biwater, 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% cost-recovery led to the continent's worst-ever cholera outbreak in August 2000, catalysed 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. The 1969 programme of the ANC (1969) 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'. The sentiment inside the country in the 1980s was, as Jay Naidoo put it in 1986, 'our victory does not consist merely of replacing white faces by black faces, but of transforming the conditions of the lives of the masses' (*South African Labour Bulletin*, 11, 5, 1986).

Nevertheless, the '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 (Hirsch 2006:196–197, *Sunday Times Business*

Times 15 February 1998, *Sunday Times Business Times* 13 June 1999). 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 (Hirsch 2006:214–216). This was achieved by means of so-called 'special purpose vehicles' , which, in Bond's (2005) 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'. 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 (Bond 2005, Hirsch 2006:217–219). Black ownership fell back to 2%, though it rose to 3–4% direct ownership and 12–15% direct or indirect ownership by 2002 (*Sunday Times Business Times* 24 June 2001).

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 (Hirsch 2006:220–221). 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 (*Sunday Independent* 31 May 1998).

In response, 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 (*Business Day* 3 April 2000).

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 (*Financial Mail* 9 August 2002).

The new state, an ANC document proclaims, 'promotes the emergence of a black capitalist class' (*Business Day* 25 May 2000). 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 4X4s 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 3 000 mineworkers' jobs (*Business Report* 16 January 1998). Subsequently, Motlatsi has been co-opted as a director of Anglo Gold.

Blade Nzimande, SACP general secretary, has criticised 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 (*Business Day* 25 May 2000, *Business Day* 5 May 2005)? 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 nationalisation of its commanding heights, under workers' control and management, not the promotion of a black capitalist class.

Deputy president Phumzile Mlambo-Ngcuka said recently that she didn't think 'there is any virtue in pure BEE if that equals poor service' (*Sunday Times Business Times* 27 November 2005). 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'. 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' (*Financial Mail* 9 August 2002). What the pro-capitalist *Financial Mail* failed to mention is that the solution of the Malaysian government was to nationalise big Malay-owned businesses (*Financial Times* 7 August 2002).

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 demonised 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 (*Business Day* 10 November 2004).

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

6 CAPITAL STRIKE AND EXPORT DEPENDENCE

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 importsubstitution 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 (Bond 2005:193). 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 (*Mail and Guardian*, 16–22 July 2004). More recently it has begun to increase (from a very low level). 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 (*Business Day* 25 August 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 (Gelb 2005:385). 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 then fell to 31.5% in 2005 (Bond 1991, Bond 2004, Hirsch 2006:74).

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 (privatised) assets, for example 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) (Bond 2005). The recent acquisition of ABSA bank by Barclays Bank, at the cost of R28 billion (*Business Day* 3 January 2006), 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 (*Business Report* 24 October 2000, *Business Day* 12 March 2001). Such 'investment', which can be easily sold off, has been responsible for the volatility of the rand's exchange rate since 1994 (Marais 1998:123, 126). 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 (*Business Day* 21 June 2004). 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 (*Business Report* 23 September 2005).

According to the Economist Intelligence Unit (2004), in fact, between 1995 and 2001 there was an average annual net outflow of capital from South Africa amounting to 0.25% of GDP. 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 (Terreblanche 2002:122, Bond 2005:24–29). 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 (Terreblanche 2002:122, Makgetla 2004:276).

AsgiSA goes along with 'big' plans for infrastructural investment – R372 billion. But if these are realised it will merely push public sector investment from 4% to 8% of GDP – a mere additional 4% (*Financial Mail* 10 February 2006). But would the private sector respond by increasing its investment sufficiently to raise the total level of investment to around 25% of GDP?

The first sector to examine is manufacturing, whose contribution 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 (Bond 2004). During the 1990s, the mean growth of manufacturing production was 0.3% per year and employment had decreased to 81% of its 1990 level by 1999 (Naledi 2004). 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. 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 and animal products (Bond 2005).

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 South Africa'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 (*Business Day* 9 September 2003).

Manufacturing performance, writes another economist (McCarthy 2003), 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'. Economists have spoken to parliament's finance committee of de-industrialisation, of a low level of value-added performance and high household spending on imports (*Business Day* 2 March 2005).

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 (Bond 2005, *Sunday Independent* 25 February 2001, *Business Day* 2 March 2005, 30 November 2005). Bell and Madula (2000:125) regard this rise in finance, insurance and real estate as a 'natural and beneficial transition from the old to the new economy'. In reality, it is the consequence of neoliberal restructuring, of the change from investment in production to investment in forms of speculation, a consequence of 'chronic overaccumulation 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' (Bond 2005:98). Almost certainly, though as Bond (2005) points out it has not been thoroughly researched, there is excess capacity in many industrial sectors.

'The government strategy for growth centres on invigorating an export-oriented manufacturing sector,' wrote Marais (1998:126). 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 (c) 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 (*Business Report* 15 March 2000). According to a recent academic study (Jones 2003:336–337), exports grew at 6.1% a year between 1994 and 2000 at constant prices. From 1995 to 2002 exports rose 30% in volume terms. Between 2002 and 2004, however, the strengthening of the rand has led to virtual stagnation in exports, which have grown by less than 3% (*Business Day* 8 April 2005). In January 2005, in fact, exports plunged by 28.6%. 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 (*Business Report* 8 March 2005).

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 to 1999, 0.7% in 1989, 0.60% from 1990 to 1994, 0.53% in 1995 to 1999 and 0.44% in 2000 to 2003 (*Business Report* 2 November 2005). 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 South Africa these products contributed a mere 3% of total exports (Kaplan 2004:623–624).

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 (Marais 1998:121). 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 7th on the list. 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 (2003:358, 361) concludes that South Africa remained 'a resource-based economy heavily dependent upon the products of its mines and fields'. 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 to 180 000 vehicles a year), wine, and tourism (Hirsch 2006:236). 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, a mere 14% of world production (*Sunday Times* 2 October 2003, *Financial Mail* 15 April 2005). 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). In 2000, however, gold and 'precious metals and stones' (platinum and diamonds) remained the top 2 exports by value (*Sunday Times Business Times* 22 May 2005).

In 2000, 4 manufactured products had moved into the top 10, and 2 processed metals. Iron and steel and coal remained respectively 3rd and 4th, but automobiles and parts had moved into 5th place, machinery from 8th to 6th place, and ores had dropped to 7th place. Aluminium had moved into 8th place (with a 7-fold increase since 1990) as the result of the ALUSAF refinery. Electrical machinery and inorganic chemicals were 9th and 10th respectively. Lower down the table, aircraft and parts, rubber products had shown big growth, though from a small base (Jones 2003:358, 361). 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 (*Business Report* 2 November 2005). In 2003 precious metals remained top with 23.9% of exports and iron and steel second with 12%. Automobiles were in 3rd place with 9.8%, nuclear reactors (surprisingly) in 4th 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%) and electrical machinery (2.0%) (Naledi 2004).

Formally, therefore, there was substantial increase in 'manufactured' exports. Between 1988 and 1996 they rose from 5% to 20% of total exports (Black and Kahn 2004:175). Between 1990 and 1995 they increased in real terms by 5.4% per year and then by 11.6% per year 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 (McCarthy 2003:180, Terreblanche 2002:117).

But there are qualifications to be made. The automobile industry, flagship of the government's export strategy and heavily subsidised by government, has undoubtedly done well. It moved from 5th in 2000 into 3rd position in 2001, comprising 8.6% of total exports in that year and 9.8% in 2003 (Naledi 2004:10). According to the Economist Intelligence Unit (2004), the volume of vehicle exports increased at an average rate of 41% between 1996 and 2003. But the auto industry depends on imported inputs and has only a limited multiplier effect on the economy (*Business Day* 8 April 2005). 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 (*Business Report* 2 November 2005). 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 (Black and Kahn 2004, Hirsch 2006:117).

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 taxpayer's 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 South African conglomerates: Anglo American, Sanlam, GENCOR etc.). Thus minerals and metals contribute 66% of exports, but only about 10% of GDP and employment (Makgetla 2004:272, Bond 2005:37, Gelb 2005:395). It seems that this was a consequence of the policies of the Director-General of the Department of Trade and Industry, Zavereh Rustomjee, who believed that South Africa should exploit its 'proven strengths' in the minerals/energy complex as an alternative (or at least a preliminary) to promoting labour-intensive manufacturing (Hirsch 2006:119–125).

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 and 2003 (*Business Report* 2 November 2005). Attempts at promoting manufacturing exports have been weak, with their performance only marginally better than that of total exports. Gelb confirms that the main increase in exports has been in basic processed goods (Gelb 2005:396).

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 (*Business Day* 8 April 2005). At the start of 2005 it was bulk commodities – coal, iron ore, basemetal copper, together with nickel, zinc, manganese – that were doing well in exports to China (*Sunday Times Business Times* 20 February 2005). These are the commodities that the government intends to try to boost through investment growth of 10% a year for next decade to China (*Business Day* 8 September 2005).

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 (*Business Day* 7 February 2006). What is the difference from the re-direction of the RDP Fund under GEAR to the Maputo corridor, the Fish River, Saldanha and Coega, mainly to benefit capital-intensive industry (Bond 2005:36–37)? Neva Makgetla points out the risks of a crash of commodity prices, and opposes this to an industrialisation strategy to create new jobs with a bias towards labour-intensive industry and services (*Business Day* 9 September 2005).

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' (Joffe *et al* 1995). It would seem that is still the case today.

7 BALANCE OF PAYMENTS PROBLEMS

Between 1994 and 2003 the average deficit in the current account of the balance of payments was small, never rising above 2% of GDP (Gelb 2005:390). 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 (*Business Day* 1 February 2001). 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 as in appliances and other consumer goods. Capital goods (machinery and equipment) stayed static at about 20% of total imports – down from 25% in mid-1990s (*Business Day* 8 April 2005).

South Africa's recent GDP growth has been due mostly to consumer spending, based on the lowering of interest rates, not to investment. Hirsch (2006:259–260) 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. As a result, the current account of balance of payments turned from surplus in 2002 to record deficits – annualised 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 (*Financial Mail* 13 May 2005). 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 3rd quarter. It was projected to increase to 5% for the year as a whole (*Business Report* 3 October 2005, *Business Day* 12 December 2005, 30 December 2005, 6 January 2006). This was due to increased imports combined with a fall-off of exports because of the strength of the rand (see above under exports).

So 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 (*Financial Mail* 26 August 2005). 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 (*Financial Mail* 15 April 2005, 13 January 2006).

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 in late 2005 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 beyond building up foreign reserves (*Sunday Times Business Times* 27 November 2005). She did not even mention the possibility of reintroducing exchange controls to stabilise the currency.

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

8 POST-GEAR?

According to spokespeople for government, the neoliberalism 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 (2006:259) goes so far as to write that from 2001 'the South African state slipped into Keynesian mode'. Even Naledi (2004) 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'. Cronin (2005), as already mentioned above, dates the turn to state-investment as the catalyst of growth to 2002.

This 'turn' away from neoliberalism 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 the 2005/6 budget deficit announced this week was 0.5% – because of a revenue over-run of R41 billion (*Business Day* 6 April 2005, 26 October 2005, 10 February 2006). Rather than spending the excess on increasing social delivery, Manuel chose to hand out some R19.1 billion in tax cuts, and to maintain the 2006/7 and future deficits around 1.5% or less. Gelb (200:374), 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'.

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 (*Business Day* 6 April 2005, *Sunday Times Business Times* 30 October 2005, *Business Day* 1 November 2005). 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 (*Business Report* 29 June 2005). Presenting the Medium-Term Budget Policy Statement in October 2005 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' (*Sunday Times Business Times* 30 October 2005).

Now the government has launched AsgiSA. Phumzile Mlambo-Ngcuka, presenting AsgiSA in February 2006, 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 3-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 (*Business Day* 7 February 2006, *Financial Mail* 10 February 2006). In addition there is a sort of shopping-bag of 'add-ons' for small and microenterprises, co-operatives and low-cost housing – but these are not prioritised.

Apparently, the National Union of Metalworkers of South Africa and the SA Communist Party have broadly welcomed AsgiSA. Cosatu qualified this by saying that AsgiSA 'only pays lip service to the issues of redistribution and inequality'. Moreover, Mlambo-Ngucka 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 (*Mail and Guardian* 10–16 February 2006).

Small wonder that the *Financial Mail* (10 February 2006) headlines its article on AsgiSA 'Old policy, new package'. 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' (*Business Report* 10 February 2006). Or that Neva Makgetla's is headlined 'Is growth plan the main course or just a starter?' – and that she points out, with substantial understatement, that AsgiSA 'seems inadequate to reach its targets of halving unemployment and poverty by 2014' (*Business Day* 10 February 2006). 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.' 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 (*Sunday Times Business Times* 27 November 2005).

9 CONCLUSION: THE LIMITS OF ANC CRISIS MANAGEMENT

Hirsch (2006:259) and Gelb (2005:373) mostly regard GEAR as a 'success' – at least in the achievement of 'macroeconomic stability', and in 'fiscal policy'. But (as Bond 2005:193, 2004, among others has pointed out) far from 'stability', the volatility of the rand – depreciating by 25% in 4 months in 1996, depreciating by 30% in 2 months in 1998, depreciating by 25% in 5 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. In fact, a survey conducted by Kaplan (2004:41) as to the reasons why businessmen were not investing found that 'fluctuations in the exchange rate' was the most important constraint (some 6 percentage points above 'labour regulations').

Indeed even Gelb (2005:372) 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 stabilisation of the fiscal deficit and inflation rate'. 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. In 1991 Gelb (1991:30) had written that a neoliberal export-oriented strategy (which was taken to its extremes in GEAR) would 'reinforce and extend the dualistic structure of South African society … income inequalities amongst blacks, and indeed overall, would probably widen' – yet by 2003 he could applaud the 'successes' of GEAR.

The same spokespeople for government tend to ignore or explain away the manifest failure of GEAR to reach its other targets (Hirsch 2006:108 tends to blame the failures of GEAR on the Reserve Bank and the 'Asian etc. crises'). 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. 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% (Terreblanche 2002:117). 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 (Nattrass 2003, Terreblanche 2002:118, Marais 1998:163–164). Even Hirsch (2006:106) has to admit that cuts in government spending slowed growth. 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 (Nattrass 2003:143–144). As Neva Makgetla (2004:264) 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'.

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 improve trade performance, and to raise productivity (Joffe *et al* 1995). In respect of at least the first three of these, the economy has failed.

Hirsch (2006) and other spokespeople for government have written that the fruits of GEAR were only reaped after its formal ending, in 2000. Cronin (2005) on the other hand, while identifying the three phases of post-apartheid economic policy as a 'progressive modernising 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)'.

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 overaccumulation – with its correlates of increasing unemployment and inequality – that has beset the economy since the 1970s.

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ENDNOTES

1. I deal with regulation theory here as the most serious 'alternative' explanation of the crisis. Other explanations are identified by Bond (2000:219): '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. Aubrey Dickman) 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 (Nicoli Nattrass); the transmission of international crisis (Terrence Moll) …' The more recently published book by Hirsch (2006) gives no serious consideration to the capital goods/ balance of payments problems.