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# From the Freedom Charter to the Washington Consensus

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## Introduction

For well over three decades, the Freedom Charter represented the African National Congress (ANC) vision for a future South Africa. It began by affirming that South Africa belonged to all who lived in it. It went on to promise an equal status to 'all national groups', provided for the transfer of the mines, banks and monopoly industries to the ownership of 'the people as a whole', guaranteed equal opportunities to all who wish to trade or manufacture, and advocated the redivision of land 'among those who work it', the ending of all restrictions on labour and labour organisations, unemployment benefits, a 40-hour week, a minimum wage, free compulsory education, and other welfare provisions with regard to health, housing, the aged and the disabled.<sup>1</sup>

By the late 1980s, some aspects of the charter's economic vision were subject to reconsideration within the ranks of the ANC. The ANC's 1988 constitutional guidelines made no mention of the nationalisation of key industries, and spoke of a mixed economy.<sup>2</sup> However the demands of the charter remained deeply embedded, at the very least within the rhetorical repertoire of the ANC. On the day of his release from prison, Nelson Mandela stated:

[T]he nationalisation of the mines, banks and monopoly industry is the policy of the ANC and the change or modification of our views in this regard is inconceivable.<sup>3</sup>

These views were repeated in 1991 when Mandela said:

Nationalisation is a demand which is reasonable from our point of view. Where do we get the capital and resources to tackle the national issues facing us?<sup>4</sup>

A decade passed and so did the Freedom Charter's hold on economic debate within the country. Summarising the 2002 national budget, the Minister of Finance, Trevor Manuel, said:

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<sup>1</sup> See T. Lodge, *Black politics in South Africa since 1945*, (Johannesburg, Ravan Press, 1983), p.71. See also R. Suttner and J. Cronin, *The Freedom Charter in the eighties*, (Johannesburg, Ravan Press, 1986).

<sup>2</sup> For an analysis of these guidelines see H.M. Corder and D.M. Davis 'The constitutional guidelines of the African National Congress: A preliminary assessment', *South African Law Journal*, 106 (1989), p.633

<sup>3</sup> Quoted in the *Sowetan*, 5 March 1990.

<sup>4</sup> Quoted in S. Johnson, 'The ANC and the N-word', *Star*, 17 October 1991.

The 2002 budget gives further impetus to investment and social development and economic growth, while providing for substantial tax relief within a sound and sustainable fiscal framework.<sup>5</sup>

He went on to hint at the theoretical justification for his budget:

[F]rom the global economic perspective the challenge we face now is to ensure that the gains that have been made through this wave of globalisation can be extended to eliminate poverty and improve equity in the poorest parts of the world ... and so in this budget we are able, once again, to harvest the sweated fruits of the progress we have made.<sup>6</sup>

This essay seeks to develop an explanation for how the ANC's economic policy changed from an unequivocal commitment to nationalisation to one that allowed it to ratify national budgets that fit comfortably within the monetary and fiscal policy advocated by economists nodding vigorously in the direction of a form of globalisation commonly referred to as 'the Washington Consensus'. To do this, it analyses the nature of the change from the initially fierce rhetoric, traceable to the influence of Stalin, to the acceptance of an economic policy which allowed for the appointment, some eight years into ANC rule, of a monetarist central banker from the United Kingdom as deputy governor of the South African Reserve Bank.

## The development of ANC economic policy from 1990

### The 1990 discussion document

In September 1990 the ANC's department of economic policy issued a discussion document on economic policy.<sup>7</sup> Taking its cue from the Freedom Charter, the document emphasised redistribution and the intervention of the state, and called for 'the reconstruction and the restructuring' of the South African economy.

Read as a whole the document was somewhat ambiguous. It proposed significant roles for both the market and the state in the development of economic policy: 'The ANC's basic perspective is that of a mixed economy in which all sectors contribute towards defining and achieving national goals and objectives for the benefit of all.'

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<sup>5</sup> T.A. Manuel, 2002 budget speech, 20 February 2002, (see <http://www.treasury.gov.za>).

<sup>6</sup> Manuel, 2002 budget speech.

<sup>7</sup> *Discussion document on economic policy*, (Johannesburg, African National Congress department of economic policy, September 1990).

Of particular importance was the proposal to restructure the economy by way of a policy of 'growth through redistribution in which redistribution acts as a spur to growth and in which the fruits of growth are redistributed to satisfy basic needs'. This proposal was predicated on the central policy idea that the state needed to boost demand, primarily by ensuring that greater amounts of income would be received by the poorer section of the population, which in turn would stimulate output and hence economic growth.

The document also suggested that a policy of mobilising domestic savings through legislation to ensure the holding of certain prescribed assets by financial institutions and an increase in the taxes of companies and high income earning individuals would be considered.

It sparked off intense debate both within the ANC and in the business community. Old Mutual economist Trevor Moll suggested that 'growth through redistribution comes uncomfortably close to macro populism'.<sup>8</sup> This form of critique from business had the desired 'chilling' effect. It did not take long for the ANC to articulate a pragmatism that was reflected in a gradual process of distancing itself from aspects of the discussion document.

At the ANC's 48th national conference in July 1991, a draft resolution was prepared, which stated: 'A future government will bear in mind the need to maintain confidence and bind itself to proceeding according to constitutional principles', and went on: '[W]e are convinced that neither a commandist central planning system nor an unfettered free market system can provide adequate solutions to the problems confronting us'.<sup>9</sup>

But the nature of the debate was uneven in its ideological development. In itself, the lack of coherent policy development was not surprising. ANC strategy had been predicated on the thesis that South Africa was a 'colonial state of a special type', and that a national revolution would have to precede any move to socialism for the latter to take hold.<sup>10</sup> In the context of this political vision, it would have been surprising if contradictions in economic policy had not arisen between differing factions within the ANC.

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<sup>8</sup> Quoted in N. Nattrass, 'Politics and economics and ANC economic policy', *African Affairs*, **93** (1994), p.348.

<sup>9</sup> Quoted in Nattrass, p.352.

<sup>10</sup> See H. Wolpe, *Race, class and the apartheid state*, (London, James Currey, 1988).

<sup>11</sup> *Making democracy work*, (Bellville, Macroeconomic Research Group (MERG), 1993).

### 'Making democracy work'

In 1991, the ANC set up a macroeconomic research group, known by its acronym MERG. This was an opportunity for interventionists who had not given up the hope that some form of social democracy, however tepid, could take root in post-apartheid South Africa. The 1993 MERG report, *Making democracy work*,<sup>11</sup> contended that the economy required restructuring through the labour market by means of improved training, education and skills development, together with the raising of wages. It also advocated state intervention to improve the structure and operation of the private sector. The report also argued for state intervention in output and pricing decisions in the minerals sector, the regulation of the housing and building supplies market, tightening and extending controls on mergers and acquisitions, monitoring the behaviour of participants in oligopolistic markets, and the creation of supervisory boards for larger companies, consisting of bank, trade union and other represented interests. The MERG report calculated that these ideas could boost growth to 5 per cent per year and create more than 300 000 jobs per year.

The report ran into heavy fire from the business community. As Marais observed, 'Not surprisingly, "Making democracy work" was savaged in the media and by mainstream economists, responses that some ANC leaders reportedly shared'.<sup>12</sup> This observation notwithstanding, the MERG report played a considerable role in the formulation of the first official government economic policy, the Reconstruction and Development Programme (RDP), which went through some six drafts until it was finally accepted in January 1994.

### The Reconstruction and Development Programme

The RDP claimed that

the fundamental principles of our economic policy are democracy, participation and development. We are convinced that neither a commandist central planning system nor an unfettered free market system can provide adequate solutions to the problems confronting us. Reconstruction and development will be achieved through the leading and enabling role of the state, a thriving private sector, and active involvement by all sectors of civil society which in combination will lead to sustainable growth.<sup>13</sup>

<sup>12</sup> H. Marais, *South Africa: Limits to change: The political economy of transition*, 2nd edn, (London and Cape Town, Zed Books and University of Cape Town Press, 2001), p.138.

<sup>13</sup> *African National Congress, The Reconstruction and Development Programme, (Johannesburg, Umanyano, 1994)*, para.4.2.1.

The RDP announced that its central goals were the elimination of poverty and low wages in particular and the extreme inequality of wages and wealth generated by the apartheid system in general. It aimed to meet the basic needs of all South Africans, and provided the assurance that each citizen would have a decent standard of living and economic security. It sought to address economic imbalances and structural problems in industry, trade, commerce, mining, agriculture, finance and the labour markets, and provided the guarantee that no person would suffer discrimination in hiring, promoting or training on the basis of race or gender. It called for the development of the human resource capacity of all South Africans, the democratisation of the economy and the empowerment of the historically oppressed, particularly workers and women.

The RDP proposed measures for encouraging broader participation in decisions about the economy in both the private and public sectors. It emphasised the need to sustain a viable and efficient domestic manufacturing capacity and to increase the economy's potential to export manufactured products. It suggested that to

meet these objectives ... the democratic government must play a leading and enabling role in guiding the economy and the market toward reconstruction and development. Legislative and institutional reform will be effected to enable the implementation of the RDP, the aim being to achieve a dynamic balance between government intervention, the private sector and the participation of civil society.<sup>14</sup>

The role of the state was critical to the attainment of the objectives of the RDP:

[T]here must be a significant role for public sector investment to complement the role of the private sector and community participation in stimulating reconstruction and development. The democratic government must therefore consider: increasing the public sector in strategic areas through, for example, nationalisation, purchasing of shareholding in companies, establishing new public corporations or joint ventures with the private sector. It should also consider reducing the public sector in certain areas in ways that enhance efficiency, advance affirmative action and empower the historically disadvantaged, ensuring the protection of both consumers and the rights of employment workers.<sup>15</sup>

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<sup>14</sup> *African National Congress*, para.4.2.3.

<sup>15</sup> *African National Congress*, para.4.2.5

The RDP made a number of concrete proposals, including that market-related wages of R60 per day should be paid in the construction sector and that 30 per cent of land redistribution should be achieved within the first five years of democratic government. The programme required clear minimum standards for housing. A policy of financial sector reform, including non-discrimination, community-based banking, the democratisation of pension funds, and the combating of capital flight, were recommended.

The RDP also addressed the question of taxation in order to ensure that sufficient funding would be available for the various programmes it mooted:

The RDP is, therefore, committed to a programme of restructuring public expenditure to finance the democratic government's contribution to the RDP. Given the fiscal malaise left by apartheid, careful programmes must be developed around the financing, increased capital expenditure, increasing the efficiency of consumption expenditure and improving the revenue recovery capacities of the government ... The existing ratios of the deficit, barring the taxation to capital GNP are part of our macro-economic problem. In meeting the financing needs of the RDP and attaining macro stability during its implementation, particular attention will be paid to these ratios.<sup>16</sup>

Thus the RDP was careful to ensure that development programmes would not be funded on the back of excessive rates of tax, but it was also careful not to commit the government to fixed ratios, from which it could not depart.

### Gearing for change

The RDP did not last very long as the ANC government's proclaimed economic policy. By mid-1996 a new policy document emanated from the Department of Finance: the Growth, Employment and Redistribution (GEAR) strategy. The very first page of the GEAR document reflected the change of policy. As a point of departure the country was informed that 'sustained growth on a higher plane requires a transformation towards a competitive, outward-orientated economy'.<sup>17</sup> The document predicted that the GEAR strategy would ensure growth rate of 6 per cent per year and job creation of 400 000 per year by the year 2000, 'concentrating capacity-building on meeting the demands of international competitiveness'.<sup>18</sup>

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<sup>16</sup> *African National Congress*, para.6.5.6.

<sup>17</sup> *Growth, employment and redistribution: A macro-economic strategy*, (Pretoria, Department of Finance, 1996), p.7.

<sup>18</sup> *Growth, employment and redistribution*, p.1.

The document then made it clear that achieving a sustained growth rate in the 5,6 or 7 per cent range required

attracting foreign direct investment, but [that it] also requires a higher domestic saving effort. Greater industrial competitiveness, a tighter fiscal stance, moderation of wage increases, accelerated public investment, efficient service delivery and a major expansion of private investment are integral aspects of the strategy.<sup>19</sup>

An exchange rate policy consistent with improved international competitiveness, responsible monetary policies and the targeting of new industrial centres were all objectives of the new policy environment. Strong export performance was seen as critical to underpin macro-economic sustainability of growth.

GEAR also recommended that a faster fiscal deficit reduction programme be introduced, not only to reduce the government's debt service obligations but also to free resources for investment. The liberalisation of financial controls, including the eventual lifting of exchange controls and a privatisation programme which would eventually cover all 'non-essential' state enterprises, were essential to the attainment of the predicted economic growth rates. The strategy promised that tax incentives would be introduced to stimulate new investment in competitive and labour-absorbing projects, and that wage restraint by organised workers would take place, as well as the promotion of a legal dispensation to ensure 'regulated flexibility' in the labour market.

Certain passages of the GEAR document nodded in the direction of the rhetoric of the RDP, but the shift from modern Keynesian economics towards a neo-liberal policy was unmistakable.<sup>20</sup> As Stephen Gelb, one of the contributors to GEAR observed:

[I]ts overriding aim was to signal to potential investors the government's (and specifically the ANC's) commitment to the prevailing orthodoxy. In 'marketing' the strategy, senior Department

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<sup>19</sup> Growth, employment and redistribution, p.24.

<sup>20</sup> Neo-liberal economics is based on the assumption that unfettered market forces can maximise not only the economic growth of a country, but also the welfare of its inhabitants. Thus, the state should confine its activities to the safety of the citizenry, by way of an adequate police and defence force and the maintenance of a system of law which is both certain and prospective in effect. This approach has a number of key fiscal and monetary implications, including low tax rates and government borrowings, the privatisation of state utilities, and the conviction that the higher the growth rate the steadier the 'trickle-down effect' of benefits will be to the poorer sections of the population.



of Finance officials made explicit its close parallels with the approach of the international financial institutions emphasising at the same time the idea that GEAR was 'home-grown' in South Africa.<sup>21</sup>

Economists who had been associated with the successor to MERG, the National Institute for Economic Policy (NIEP), were highly critical of the absence of analytical argument or empirical evidence to justify GEAR's claim that adoption of its policies could produce a growth rate of 6 per cent. They suggested that the projected growth rate was based on a number of questionable assumptions including 'the crowding out' of private investment by the government, that deficit reduction would result in a declining interest rate, that an increased current account deficit was consistent with a lower interest rate, and that a lower interest rate would provide a strong stimulus to private investment.<sup>22</sup>

GEAR's claim that to achieve sustained growth on a higher plane South Africa required an outward-orientated economy was also subject to critical scrutiny. This claim was based on the perception that the South African economy was closed at the time that GEAR was written. The South African non-gold export-GDP ratio was 21 per cent, which is 5 per cent above the average export-GDP ratio of the G7 countries for the period 1990–1994, 6 per cent above Indonesia's export-GDP ratio, 4 per cent above India's ratio and 3 per cent above Brazil's average export-GDP ratio. Although it was conceded that a faster rate of growth to non-gold export was desirable, a carefully formulated and precisely targeted industrial strategy designed to develop those sectors of the economy with the potential for export growth had not been developed. Thus the GEAR target of an average yearly growth of 8,4 per cent for the non-gold export sector was unrealistic and unattainable, because it required a 22,7 per cent increase in the export-GDP ratio within four years.<sup>23</sup>

Other than nodding in the direction of the Washington Consensus, no explanation was provided for why the deficit-GDP ratio of more than 3 per cent of GDP was unsustainable within a dynamic framework. The fundamental assumption that growth would lead to redistribution was criticised, because the linkage between growth and better income distribution was completely neglected in the GEAR strategy.<sup>24</sup>

Trevor Manuel, the Minister of Finance, sought to wrap the neo-liberal economics of GEAR in the interventionist cloth of the RDP when he introduced the 1997

<sup>21</sup> Stephen Gelb quoted in Marais, p.170.

<sup>22</sup> See A. Adelzadeh, *From the RDP to GEAR: The gradual embracing of neo-liberalism in economic policy*, (Johannesburg, National Institute for Economic Policy (NIEP), 1996), unpublished paper.

<sup>23</sup> Marais, p.168.

<sup>24</sup> See Adelzadeh.

national budget. He told Parliament that

[T]he RDP is the embodiment of the commitment of this government to the elimination of poverty in a rapidly growing economy and in the context of an open, peaceful and democratic society. For this vision to materialise, policies must be orientated towards the provision of basic needs, the development of human resources, and a growing economy capable of creating sustainable jobs. The success of the RDP is inherently bound by our ability to generate this development and redistributive thrust within a sound fiscal and macro-economic framework. To give effect to the RDP in the context of a rapidly globalising and highly competitive international environment requires a significant change in the path of economic growth and development. The challenge to Government is to align economic policy in a way that will ensure acceleration of economic growth and natural improvement in job creation by the turn of the century. The policy set out in the GEAR programme was designed to achieve these objectives.<sup>25</sup>

Manuel's speech reflected the way in which ANC economic policy had evolved from the Freedom Charter and the early 1990 discussion document to GEAR (which to date continues to represent the essential framework within which ANC economic policy is developed). In the early years of GEAR, the RDP was interpreted in a manner which sought to reconcile the interventionist objectives contained in the Freedom Charter with the strictures of the global economy as interpreted by the Department of Finance. GEAR represented an entirely new set of economic programmes that demanded monetary prudence, a reduced role for the government, and the development of an economic climate as investor-friendly as possible. The RDP had been launched in 1994 as representative of the economic policy of the government, but by 1997 it was at best a series of aspirations, and at worst the cement of history, employed to hold together the competing constituencies within the ANC.

The question which thus needs to be asked is: How did a movement, which for more than three decades remained committed to the economic principles set out in the Freedom Charter, come, within so short a period of time (no more than three years), to embrace neo-liberalism – the very antithesis of what had been its policy for so long?

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<sup>25</sup> T.A. Manuel, 1997 budget speech, 12 March 1997 (see <http://www.treasury.gov.za>).

## The RDP vs. GEAR

Any analysis of the development of ANC economic policy over the past decade runs into the difficulty that the various policy documents, in particular the RDP and GEAR, were written in an ambiguous fashion, making the texts of each subject to a contest between competing ideological constituencies within the ANC in particular, and in the South African polity in general. In defending GEAR to the South African Communist Party (SACP) in 1998, the president of the ANC, Thabo Mbeki, said:

At a recent meeting of the National Executive Committee of the ANC we made the suggestion that the ANC should prepare and publish a booklet reporting on what our Government has done to implement the perspectives spelt out in the RDP. This will be done. We made this suggestion because we were confident we have, in fact, not departed from those perspectives. We say this without fear of contradiction that the assertion that we have abandoned the RDP is false and completely without foundation. All that any honest person needs to do is to look at RDP documents and analyse what the Government has done in the short period of four years in which we have been in power.<sup>26</sup>

In the same statement Mbeki highlighted how the two policy documents were interpreted differently within the ANC alliance:

One of the issues which the right-wing parties in our country are very fond of repeating is that our movement has abandoned the RDP. By this means, they hope to turn the masses of our people who voted for us in 1994 against our movement by seeking to project the notion that we have betrayed the trust that the people placed in the ANC. What is, however, surprising is that we also find the same message about the RDP repeated by people who claim to represent the left.<sup>27</sup>

Whatever interpretation is to be given to the documents, the assumptions upon which the RDP was based turned on the role which the state would be required to play when the market failed to provide access to basic goods and services, protect the environment and consumers, and ensure industrial and technological development.

<sup>26</sup> T. Mbeki, statement at the 10<sup>th</sup> congress of the South African Communist Party, Johannesburg, 2 July 1998, <http://www.anc.org.za/ancdocs/history/Mbeki/1998/sp0702.html>.

<sup>27</sup> T. Mbeki, statement at the 10<sup>th</sup> congress of the South African Communist Party, Johannesburg, 2 July 1998, <http://www.anc.org.za/ancdocs/history/Mbeki/1998/sp0702.html>.

It was not a policy that ignored the constraints of the prevailing global economic order. Hence, it advocated the maintenance of strict limits for government expenditure, the promotion of international competitiveness, and the endorsement of an independent Reserve Bank, insulated from government interference.

The internal contradictions of the RDP apart, its contrast with GEAR was clear. GEAR was based on conservative economic modelling. Ironically, GEAR was underpinned by a model developed in 1993 by the Department of Finance, called the Normative Economic Model, which had been widely discredited at the time of its publication, together with further modelling which emanated from the Development Bank of Southern Africa, the World Bank and Stellenbosch University. The role of the state in repairing the malfunctions of the market was downplayed. Current rates of corporate and personal taxes were regarded as excessive, and future revenues had to be based on a ratio of 25 per cent to GDP. Additional revenue had to be collected by way of improved efficiency in tax collection or economic growth. Supply-side measures to encourage domestic fixed investment as well as foreign investment were to be introduced, including tax incentives for new manufacturing investments. The restructuring of state assets, the government's code for privatisation, was given high priority, with the object of increasing efficiency and attracting new investment, particularly from foreign shores.

If GEAR differed from the RDP, it was light years removed from the proposals of MERG. MERG had advocated continuing exchange controls for domestic residents, a 2 per cent real interest rate, a massive programme of housing construction for the poor, a cautious minimum wage policy, and nationalisation of the Reserve Bank. It also proposed a people's bank, based on the Post Office savings bank infrastructure, prescribed assets for insurance companies and pension funds, and capital market controls.

So much for the differences. The question which must now be asked is how GEAR achieved hegemonic status.

## Towards a tentative explanation

The easy explanation of the changes in policy is based on the idea that the past 10 years saw a move from apartheid to neo-liberalism as a result of a negotiated pact between elites, represented on the one hand by the National Party and on the other by the ANC.<sup>28</sup> The elites got together, developed a constitutional compact, and then went on with the business of spreading largesse among themselves: from a racial to

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<sup>28</sup> See P. Bond, *Elite transition: From apartheid to neoliberalism in South Africa*, (London and Pietermaritzburg, Pluto and University of Natal Press, 2000); and H. Adam, F. van Zyl Slabbert and K. Moodley, *Comrades in business. Post-liberation politics in South Africa*, (Cape Town, Tafelberg, 1998).

a non-racial elite. This explanation overlooks two fundamental influences on the shaping of economic policy over the past decade – the impact of the global economy and the politics of the ANC.

### The South African economy in the global economic context

When the ANC took charge of government it decided that, to maintain internal white business confidence and international business confidence as well as economic and currency stability, the Ministry of Finance should remain initially in the hands of the National Party and the incumbent governor of the Reserve Bank should continue to serve. This decision, of course, was taken within the broader context of the compact which gave rise to the constitutional settlement at the Convention for a Democratic South Africa (Codesa).<sup>29</sup>

The justification was not hard to find. The economy inherited by the ANC was in complete disarray. Whereas GDP had grown on average by 3.3 per cent between 1970 and 1979 and 2.2 per cent between 1980 and 1989, it had grown by no more than 0.2 per cent between 1990 and 1994. Between 1980 and 1989 inflation had risen on average by 14.6 per cent per year. From 1970 to 1985 South Africa relied heavily on annual flows of foreign savings, which averaged about 2 per cent of GDP. Sanctions, fiscal conflict, exchange controls and the debt standstill in the 1980s contributed to a complete reversal of this trend, with annual outlays of 2.5 per cent of GDP taking place from 1985 to 1993. Between 1990 and 1994, government consumption expenditure reached 20 per cent of GDP. Whereas general government tax revenue amounted to 24.7 per cent of GDP, general government expenditure reached 30.6 per cent of GDP during the same period. Interest on the public debt amounted to the largest budget item during this period.<sup>30</sup> This economic weakness put a significant constraint on the development of economic policy, at the same time as global economic volatility affected it.

The initial successes achieved in the spring of democracy rapidly hit ceilings. By 1996 growth had reached 3 per cent, not least because there was a surge of some R15 billion in direct investments and the number of businesses established during 1995. High crime rates, a falling currency, and in some cases considerable misperception about the effects of labour legislation (passed in 1995), acted as disincentives to international investment. In mid-1998 the asset management industry which controlled much of western capital reacted to the economic turbulence in Brazil, Russia and parts of East Asia. Shares on the Johannesburg Stock Exchange plunged, together with emerging markets. Between 1994 and 1998 the value of the South African

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<sup>29</sup> For a detailed discussion of this process see H. Ebrahim, *The soul of a nation: Constitution making in South Africa*, (Cape Town, Oxford University Press, 1998).

<sup>30</sup> All of these statistics are to be found in *Budget review 2000* (see <http://www.treasury.gov.za>).

currency roughly halved from R5 to R10 per pound sterling. In its determination to control inflation and attract foreign investment, the government raised interest rates. The high cost of borrowing affected many sectors in the economy, so that economic growth slowed to barely positive numbers in 1998.<sup>31</sup>

It was to these matters that Thabo Mbeki referred in his statement to the SACP congress in 1998:

Your Congress takes place at the time when our financial markets, like others in other parts of the world, are afflicted by great turbulence. At the same time, the world economy is gravely concerned about the Japanese and other East Asian economies and their impact on the world economy. While our eyes were focused on these matters both domestically and internationally, among other things reflecting on the challenge they pose to the development efforts of our own country and Continent, we were once more reminded of the urgent need to attend to matters of peace and stability on our Continent, without which no development will occur ... The fact of the matter is that it is within this world that we have to achieve our own objectives as a movement of the reconstruction and development of our country and its transformation into a society of non-racialism, non-sexism and a better life for the masses of our people ...<sup>32</sup>

### Internal ANC politics<sup>33</sup>

After the Second World War, two forms of political strategy emerged within the ANC. The first was neo-classicism and the other neo-marxism. Neo-classicism dominated until the early 1960s. Within this framework, the racially defined nature of apartheid was considered to be incongruent with the rational requirements of a free enterprise economic system. Apartheid and capitalism were seen to be inherently contradictory. Thus the development of capitalism in South Africa would inevitably bring about a growing need for economic development, which would grind to a halt

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<sup>31</sup> For a general overview see W. Beinart, *20<sup>th</sup> century South Africa*, (Oxford University Press, 2001), pp.332–333.

<sup>32</sup> Mbeki, Statement at the 10th congress of the South African Communist Party.

<sup>33</sup> In this section I have drawn heavily upon R. Fine, 'Civil society theory in the politics of transition in South Africa', *Review of African Political Economy*, 55, (1992); Marais; and J.S. Saul 'Thinking the thinkable: Globalism, socialism, and democracy in the South African transition', *Socialist Register*, 1994.

against the rock of apartheid irrationality. The ANC-led Congress Alliance, representing the progressive arm of capital, organised labour and moderate liberal nationalist politicians, produced a restrained form of political struggle for a reformist project by the state, and thereby the reconciliation of the political structure with the economy.

By the 1960s the failure of the old politics gave rise to neo-marxism, and with it the rejection of the limitations of non-violence, legalism and reformism. Protest changed to direct political challenge, reform to revolution. Fine notes that the ANC's form of neo-marxist opposition to the state had one thing in common with the doctrine it replaced: it subsumed the association of civil society under its own centralised project, that being the overthrow of the apartheid state.<sup>34</sup> But while neo-classicism needed the state to be forced to reform in a top-down manner, neo-marxism rejected all partial reforms and all negotiations with the state, seeking to direct a unified political force to achieve a top-down reconstruction of society.<sup>35</sup>

During the 1970s the trade union movement initiated a process of struggle which incorporated the self-organisation of labour and industrial unions, workplace reform, and a demand for legal protection to organise workers. These ran counter to the dominant top-down neo-marxist approach in the ANC. But in the 1980s there was an alliance between the trade union leadership and nationalist politicians, some of whom worked within the ANC framework, in which a national democratic revolution would precede a socialist one. This gave rise to the Federation of South African Trade Unions (Fosatu) and later the Congress of South African Trade Unions (Cosatu).<sup>36</sup> The alliance was based on the idea that in the political battle for democracy the working class had no specific interest of its own. A workers' charter was replaced by a fresh commitment to the Freedom Charter, the political purchase of which had been almost non-existent for the past decade and a half.

National democratic revolution became the object of the alliance's political activity, a far cry from the demand for a socialist democracy. By the time the ANC came to negotiate at Codesa, it had established clear dominance in the camp of political opposition to the nationalist government. The ANC's programme was sufficiently subtle to hold within it the old trade union left and popular nationalists. Democratic rights and ambiguous policies for fundamental social change kept all within the broad church of the ANC. During the 1950s the Freedom Charter provided the cement with which different constituencies could be attached one to the other without

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<sup>34</sup> Fine, p.72.

<sup>35</sup> Fine, pp.74–75.

<sup>36</sup> For a history of the independent unions, see J. Baskin, *Striking back: The history of Cosatu*, (Johannesburg, Ravan Press, 1991). For an analysis of the two-stage theory of revolution and the theory of internal colonisation, see Wolpe.

any significant cracks in the organisational façade. During the 1990s the ANC had to adopt a different programme to ensure that it could contain various groups, despite their fundamental contradictory interests. In many ways the Freedom Charter was replaced by Tony Blair's third way.<sup>37</sup>

This programme entailed the incorporation of the working class into the general political consensus as well as the building of a near-corporatist relationship between government and capital. In order to ensure the success of a corporatist politics, political discourse had to become hegemonic. In the South African case the discourse of the African Renaissance was particularly important. On the one hand it promised that South Africa would become the key player in major African developments, which could only be welcomed by white capital. On the other hand, the use of the word 'African' resonated with the majority of South Africans. A nationalist call that appealed to both white capital and the black populace was the very recipe for ideological hegemony!

In summary, an understanding of the development of ANC economic policy over the past decade must be located in an understanding of the nature of the ANC as a political movement. From its establishment in 1912 it saw its role as being to bring about the end of a racist South African state and to replace it with a non-racial democracy. Notwithstanding its being a multi-class organisation, the ANC's dominant faction was a black middle class whose political aspirations stretched only so far as the attainment of the first stage of the revolution – the national democratic revolution.<sup>38</sup> It was this essential organisational character that allowed the ANC to negotiate a political compromise which preserved the structure of the economy and in terms of which the polity would no longer have a racist character and the economy could advantage existing interests and bring the black middle class into its bosom.

The team that took power was never committed to maintaining a socialist democracy within South Africa. It successfully absorbed the advocates of that form of radical initiative, being the rump of the trade union movement which emerged during the 1970s. But the nationalist project was already dominant when negotiations were initiated with the apartheid government in the early 1990s. That the economic policy documents prepared by the ANC from the late 1980s onwards could be reconciled – albeit rhetorically – with the Freedom Charter, was more attributable to the ANC's almost unique ability to absorb competing constituencies within its ranks than to any linguistic difficulties encountered by the interpreters of the later documents. Social democratic rhetoric was the cement which bound the left to the

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<sup>37</sup> For a comprehensive analysis of modern labour party thinking as it has evolved under the leadership of Tony Blair, see A. Giddens, *The third way*, (London, Polity Press, 1998).

<sup>38</sup> For an elaboration of this argument see N. Alexander, *An ordinary country*, (Pietermaritzburg, University of Natal Press, 2002).



ANC. But if the rhetoric of the Freedom Charter, the 1990 discussion document, the MERG report and even the RDP could be sourced in social democracy, the real politics of the ANC was based on a nationalist view of the world with the attainment of a nationalist democracy being the critical objective.

But internal ANC politics must also be placed in the global economic context. When the ANC assumed power it was confronted by a new world order. The Iron Curtain had collapsed. A free enterprise form of globalisation had taken hold, and small economies such as South Africa's were at the mercy of the free flow of capital and the prescriptions of international economic agencies such as the World Bank and the International Monetary Fund. The increased integration of the world economy reduced the policy options open to governments of relatively small nation-states. That the South African government would have seen GEAR as its only option was not only due to the politics of the ANC:

On the one hand, to foster productivity and competitiveness of their economies, they (nation-states) must ally themselves closely with global economic interests and abide by global rules favourable to capital flows, while their societies are being asked to wait patiently for the trickle-down benefits of corporate ingenuity.<sup>39</sup>

## Conclusion

When the ANC assumed power in 1994, the South African economy was in terrible trouble. In a dominant economic discourse – namely globalisation viewed through the prism of the Washington Consensus that promoted free trade, financial liberalisation, foreign investment incentives, business deregulation, low taxes, fiscal austerity, privatisation and flexible labour markets – the ANC was not dealt a full deck of policy cards.<sup>40</sup> Within this context, it is not surprising that the new government – which assumed office through a pact, and inherited a weak and relatively small economy easily susceptible to world economic developments – sought recourse in neo-liberal economic policy.

Thabo Mbeki's ANC presented GEAR and its subsequent variations in the budgets of the late 1990s and early 2000s as the only means by which to achieve a representative economy which could provide basic goods and services to the majority of the population. Viewed accordingly, there is little evidence for the argument that

<sup>39</sup> M. Castels, *The power of identity*, vol.2, (Oxford, Blackwell, 1998), p.308.

<sup>40</sup> See, for example, *Report of the working group on international financial crises*, (Organisation for Economic Co-operation and Development, Paris, 1998).

the policy of Mbeki's government was only designed to promote the interests of a black elite (who unquestionably have profited markedly over the past five years). A black elite conspiracy is hardly a credible explanation for the developments over the past decade, the opportunism of the black bourgeoisie notwithstanding. The fundamental contention of this essay is that a combination of a weak economy, an essentially nationalist political movement (the politics of which were always located in a top-down direction), and a particular international context combined to shape the economic policy which evolved during the 1990s and into the 21st century.

This policy, which has allowed some black South Africans opportunities to profit immeasurably, has not yet shown any prospect of changing the economic structure which disempowers the majority of the population. Although South Africa's gross national income in real (1995) terms rose every year at an average of 2.5 per cent between 1993 and 2000, employment in non-agricultural sectors, private and public combined, fell every year (apart from 1995) at an average of 1.7 per cent. In commercial agriculture the evidence indicates that employment has continued to fall. Between 1993 and 1998 agriculture lost some 46 000 jobs at a rate of just under 1 per cent per year. Neither has much investment taken place. Household savings fell from the 4 per cent to GDP ratio in 1992 to almost nil in 1999. Gross domestic savings, including government savings, which had risen from 20 per cent of GDP in 1970 to over 30 per cent in 1980, fell from the average of 22 per cent during the 1980s to only 14 per cent in 1998, and had increased to a little more than 16 per cent in the year 2000.<sup>41</sup>

These consequences of the current policy cannot only be attributed to the government's choice of economic instruments. The significance of this unimpressive performance is that it has not given rise to an economic debate about any alternative, even in the wake of crises of regulation within international markets and large businesses precipitated by Enron in 2001. The absence of debate is testimony to the success of the ANC's third way. But at some point the rhetorical cement of social democracy may well weaken sufficiently to expose to proper public scrutiny the nationalist project based on neo-liberal economics.

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<sup>41</sup> These figures are taken from F. Wilson, 'Employment, education and the economy', in *Annual Survey 2000/2001* (Johannesburg, South African Institute of Race Relations, 2001), p.3.

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