SOUTH AFRICAN POST-APARTHEID ECONOMIC PLANNING AND PERFORMANCE: A CRITICAL ASSESSMENT OF GEAR

Thesis submitted in partial fulfilment of the requirements for the degree of Masters in Arts in (Political Studies)

By

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DECLARATION

I Sambulo P. S Mathebula, declare that this research report is my own work. Any assistance that I have received has been duly acknowledged in the research report . It is submitted in partial fulfilment of the requirements for the degree Masters of Arts (Political Studies), at the University of the Witwatersrand. It has not been submitted before for any degree at this or other University.

Sambulo P. S Mathebula **16 February 2015**

ABSTRACT

The ANC ascended to government against the backdrop of a rapidly changing global political economic order after the end of the Cold War. This effectively marked the collapse of communism as a global political force and the concomitant dominance of neoliberalism. In 1996, the African National Congress government adopted the Growth Employment and Redistribution strategy (GEAR) as its new economic blue print, through which it would pursue its transformation agenda. In so doing, the ANC circumvented economic policy consultation processes with its political alliance partners and declared GEAR 'non-negotiable'.

This research argues that the shift to GEAR was essentially an economic policy alignment with the dominant post -Cold War neoliberal discourse and practice. It was fashioned deliberately by key ANC policy makers who had bought into the neoliberal assumption that development would occur after economic growth had been attained. The GEAR strategy privileged market led reforms which subordinated the transformation agenda to orthodox macroeconomic considerations. The pro-market bias which began with the adoption of the GEAR strategy has continued to shape South Africa's post-apartheid economic policy environment to a significant extent.

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Table of Contents

DECLARATION i

ABSTRACT ii

ACKNOWLEDGEMENTS iii

CHAPTER ONE 1

INTRODUCTION 1

RESEARCH QUESTIONS: 5

OBJECTIVE OF THE THESIS 6

RESEARCH DESIGN AND METHOD 8

CHAPTER STRUCTURE 9

CHAPTER TWO 10

THE STATE VERSUS THE MARKET: A CONCEPTUAL OVERVIEW 10

INTRODUCTION 10

MARKET FUNDAMENTALISM, A HISTORICAL AND THEORETICAL OVERVIEW: 10

LIMITS TO MARKET FUNDAMENTALISM: 13

CONCLUSION: 17

CHAPTER THREE 18

NEOLIBERALISM A HISTORICAL OVERVIEW: SOUTH AFRICA IN A CHANGING GLOBAL ORDER 18

INTRODUCTION: 18

THE ASCENDANCE OF NEOLIBERALISM AND THE GLOBAL CONTEXT 19

AFRICA AND NEOLIBERAL INFLUENCE: 24

SOUTH AFRICA AND NEOLIBERAL CONVERGENCE: 26

CONCLUSION: 29

CHAPTER FOUR 30

A SHIFT IN GEAR EMBRACING THE MARKET 30

INTRODUCTION: 30

THE ANC's IDEOLOGICAL BATTLE FOR TRANSFORMATION: THE DAVOS MOMENT 31

THE TRIUMPH OF ORTHODOX ECONOMICS: 33

CONSTRAINTS ON DEVELOPMENT: EMBRACING THE MARKET 34

THE ADOPTION OF GEAR 39

WHY GEAR? 42

CONCLUSION: 44

CHAPTER FIVE 46

GEAR IN ACTION: CONSEQUENCES FOR SOUTH AFRICA'S POLITICAL ECONOMY OF TRANSITION .. 46
INTRODUCTION: 46
GEAR FAILURE AND COMMITMENT TO MACROECONOMIC ORTHODOXY: 47
Table 3.1: GEAR Prediction versus Actual Performance 48
POLICY CONTINUITY AND IMPACT: ASGISA AND THE NEW GROWTH PATH 50
THE ROLE OF THE DEMOCRATIC STATE AND A DEEPENING NEOLIBERALISM 53
TRANSFORMATION & CLASS CONSOLIDATION: BLACK ECONOMIC EMPOWERMENT (BEE) 55
SOCIAL DECLINE AND THE NDP 56
CONCLUSION: 57
CHAPTER SIX: 59
CONCLUSION 59
BIBLIOGRAPHY 65

CHAPTER ONE:

INTRODUCTION:

At the centre of the African National Congress' (ANC) liberation narrative has been the articulation of a transformation vision for South Africa. This transformation vision was brought about by the recognition that centuries of colonial and subsequent decades of Apartheid exploitation had left the majority of South African citizens disenfranchised and systematically excluded from meaningful participation in South Africa's political and economic life. Of utmost importance for the ANC and its allies in the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU), was articulating the character and/or nature that this transformation of South Africa would assume in general and in particular crafting an economic vision and strategy as a means to achieve this transformation.

In 1994 the newly elected ANC government set out to craft an economic policy for South Africa which was based on the principles enshrined in the Freedom Charter which emphasised collective economic ownership and the centrality of the state in the pursuit of transformation. This was followed by the introduction of the Reconstruction and Development Programme (RDP) base document as a vehicle to realise this Freedom Charter vision. In the process of crafting the RDP, the ANC undertook a wide consultation process with its alliance partners and the public at large. To this end Nelson Mandela stated that "in 1955, we actively involved people and their organisations, in articulating their needs and aspirations; once again we have consulted widely".[1] What is significant about this broad consultation is that it underscored the value that the ANC placed on the principle of inclusivity when it came to the crafting of policy in general and economic policy in particular. At the centre of the RDP was the notion that economic growth would be pursued alongside addressing the basic needs of the people; and that this would also be an undertaking to be predominantly led by the state.[2]

Against the backdrop of the Freedom Charter and subsequently the RDP, the ANC's economic vision can be understood as primarily developmental in nature, underscoring the centrality of addressing the basic needs of the people as an economic priority. At its 50th National Congress, the ANC reiterated this stance when it declared that

> "Economics is about people, their work, their ownership of productive assets or lack of it, their share of what they produce what they buy and sell, their accommodation,

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[1] Reconstruction and Development Programme: A policy Framework, accessed March 12, 2014, www.anc.org.za/show.php?id=235

[2] Thembinkosi L. Lehloesa, "South Africa's Growth Economic And Redistribution Strategy, in the context of Structural Adjustments in the South", (MA thesis, Rhodes University, January 2000)

their recreation, in fact every element which we describe as quality of life, flows from the structure and management of the economy"[3].

This also demonstrated the centrality of the economy as a means towards attaining the ANC's transformation vision.

The ANC's ascendance to government coincided with significant global developments and most notably the end of the Cold War in the late 1980s. This period signalled particular shifts in global economic thinking and practice, as it followed a global crisis of accumulation of the 1970s. In the 1970s the prominent North Atlantic capitalist economies were afflicted by a phenomenon known as 'stagflation'[4], which the Keynesian system which they had hitherto relied upon had not anticipated. Stagflation resulted in slower growth rates, high inflation and recession.[5] This led to the collapse of the earlier Bretton Woods system which was responsible for the 'golden age of social democratic capitalism,' thus bringing about the rise and ultimate dominance of Neoliberalism.[6]

Against the backdrop of the global crisis of capital accumulation, key elite historical figures rose to prominence, advocating for market led economic reforms as a response to the global capital accumulation crisis. The rationale behind this was to promote ideas which emphasised the efficiency of market competition, the role of individuals in determining economic outcomes and distortions accruing from government intervention and the regulation of markets.[7] The rise in these ideas was buttressed by the Reagan administration in America and the Thatcher administration in the United Kingdom. It was under the leadership of these two political protagonists-but not limited to it- that the global dominance of neoliberal discourse and practice which accorded primacy to market led reforms, was set in motion.

South Africa's transition from apartheid to democratic governance attracted significant amounts of global interest ranging from international big business, domestic business, scholars and international policy makers from the IMF and World Bank. This meant that the ANC's developmental economic vision for the pursuit of its transformation aims would prove to be an essentially contested terrain. Notwithstanding the absence of a coherent economic policy when the ANC approached the negotiation table at the Convention for a

[3] Resolutions; 5Oth National Conference: Resolutions- Economic Transformation, accessed March, 12, 2014, http://www.anc.org.za/show.php?id=2435.
[4] K.S Jomo, "Economic Reform for Whom? Beyond the Washington Consensus" 2005, accessed March, 12, 2014, http://www.paecon.net/PAEReview/issue35/Jomo35.htm
[5] Ian Van Vuuren, "Varieties of Neoliberalism within the post -cold war period: Economic Policy in Post-Apartheid South Africa", (MA Thesis, University of Stellenbosch, 2013).
[6] Sampie Terreblanche, "Lost in Transformation: South Africa's search for a new future since 1986", (KMM Review Publishing Company (PTY) Ltd), 2012, 17-36
[7] Thomas I Palley, "From Keynesianism to Neoliberlaism: Shifting paradigms in Economics", Alfredo Saad-Filho and Deborah Johnston, Neoliberalism a Critical Reader, (Pluto Press, 2004), 20.

Democratic South Africa (CODESA),[8] economic thinking in the ANC was premised on the principals enshrined in the Freedom Charter later enunciated in the RDP when the ANC was elected into government. At the party level the ANC's first attempt to articulate its economic vision in policy terms, was made manifest in the 1990 'Discussion Document on Economic Policy' (DEP), which emphasised a fundamental restructuring of the economy through following a redistributive logic premised on prioritising the satisfaction of people's basic needs. In this case the full economic inclusion of the country's majority would be promoted through a redistributive political-economy regime.

To this end, scholars like Hein Marais argued that

> "The overriding theme was 'growth through redistribution', a formula in which redistribution acts as a spur to growth and in which the fruits of growth are redistributed to satisfy basic needs. The logic was that growth could be spurred by satisfying the basic needs of the majority through a redistribution of income which would increase employment, demand and production".[9]

Marais further noted that;

> "The document envisaged an active role for the state in planning industrial strategy and overcoming racial, gender and geographic inequalities. It stressed the need to restructure the financial sector which, it said 'does not sufficiently direct savings into productive activity or into critical areas of infrastructural development' and, instead, encourages a scramble for short-term speculative profit".[10]

The ANC's economic vision was met with a fair amount of resistance. Economists like Niccoli Nattrass contended that the growth through redistribution proposition was merely an attempt at political expediency because "it served the political purpose of uniting various constituencies within the ANC".[11] Attacks emanating from mainstream media and influential business quarters, pointed out that the ANC's economic proposal bore socialist undertones and was nothing short of macroeconomic populism.

Others argued that, "a state spending spree (geared at redistribution) would overheat the economy, and bog it down in a morass of foreign exchange shortages, currency devaluations, rampant inflation, severe indebtedness and cuts in real wages".[12] The ANC's economic vision began to wither under the weight of criticism from various domestic and international business quarters as well as mainstream media commentary. Soon the ANC shifted in favour of an economic vision which differed markedly from what was articulated

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[8] Hein Marais, "South Africa –Limits to Change: The evolution of economic policy A short walk to Orthodoxy", (UCT Press 2001).
[9] Marais, South Africa-Limits to Change, 148.
[10] Marais, South Africa-Limits to Change, 148.
[11] Niccoli Nattrass, quoted in, Hein Marais, "South Africa –Limits to Change: The evolution of economic policy A short walk to Orthodoxy", (UCT Press 2001), 148.
[12] Marais, South Africa-Limits to Change, 149

in the Freedom charter and later the RDP base document, thus aligning its economic thinking with the hegemonic global current of neoliberal economic thought and practice.

In June 1996 the Growth Employment and Redistribution (GEAR) macro-economic strategy was unilaterally unveiled by the ANC led government. This framework had been developed with the close assistance of a group of IMF and World Bank experts, having bypassed the alliance consultative process. Then Finance Minister Trevor Manuel declared GEAR 'non-negotiable'. GEAR proposed to create a competitive fast growing economy, with its architects arguing that a growth rate of 3%, the rate at which South Africa was growing, was unsustainable. Further, GEAR proposed interventions which would seek to: stimulate economic growth by keeping the fiscal deficit at an acceptable low level; keep inflation in check as it were; creating significant levels of employment; increase public spending yet decreasing public consumption expenditure; create a sound balance of payments, provide exchange rate stability as well as an expansionary fiscal strategy.[13] These proposals thus informed the monetary and fiscal policy agenda employed by GEAR.

Such a set of interventions represented a significant involvement of private enterprise or market involvement in rebuilding and reconstructing the South African economy. Private sector investment became much sought after which led to concerted efforts in courting foreign direct investment (FDI). In this regard GEAR stipulated that "Trade and industrial policies aim to promote an outward-oriented industrial economy, integrated into the regional and global environment and fully responsive to market trends and opportunities".[14] Whilst these were also much needed interventions, the thinking which promoted the understanding that South Africa's transformation would occur primarily through a state led developmental economic prism which prioritised the well-being of people and emphasised redistribution of the country's wealth was dispensed with.

[13] Marais, South Africa-Limits to change, 160-167

[14] Growth Employment and Redistribution: A Macroeconomic Strategy, accessed March 12, 2014, http://www.treasury.gov.za/publications/other/gear/chapters.pdf, 7

RESEARCH QUESTIONS:

The African National Congress became the first popularly elected democratic government of South Africa, managing to secure 62.5% of the vote in the 1994 elections.[15] In its election campaign the ANC prioritised economic policies which sought to address the basic needs of the people. This would occur through a state led redistributive programme which would lead to growth.[16] This vision was derived from the principles of the Freedom Charter which placed at their core, developmental values which envisioned that all citizens would be equitable owners of the country's wealth. To this end the Freedom Charter stated that, "the national wealth of our country, the heritage of South Africans, shall be restored to the people; the mineral wealth beneath the soil, the Banks and monopoly industry shall be transferred to the ownership of the people as a whole…".[17] After two years in government the ANC deviated from this vision and embraced economic policies which ostensibly contradicted its historical economic vision and pronouncements.

In order to understand why and how this deviation occurred, this study seeks to address the following central research question:

- What were the main factors that accounted for the shift in the ANC's economic philosophy and policy orientation after the 1994 elections?

In order to address this central research question, it is also necessary to explore the following secondary research questions:

- What were the main political and economic factors that resulted in the ANC adopting the Growth Employment and Redistribution (GEAR) macroeconomic strategy?

- How did the post-cold war international political-economic context impact on the ANC's economic thinking and planning when it was elected as South Africa's first democratic government in 1994?

- How did the adoption of the GEAR strategy shape South Africa's post-apartheid economic planning and performance?

[15] South African History Online: towards a people's history, accessed, March 12,2014, www.sahistory.org.za/dated-event/first-democratic-election-held-south-africa-0
[16] Thembinkosi L. Lehloesa, South Africa's Growth Economic And Redistribution Strategy, 1-4
[17] The Freedom Charter, accessed March 12, 2014 http://www.anc.org.za/show.php?id=72

OBJECTIVE OF THE THESIS:

This thesis does not introduce any new material to the ongoing debates around South Africa's post-apartheid political economy. It aims to undertake a rigorous interpretation of the existing literature and expand upon the analytical perspectives which attempt to explain what influences inform the state of democratic South Africa's economic performance and planning. This report accepts the neoliberal characterisation of South Africa's post-apartheid economy, as demonstrated in chapters two and three which illustrate the ANC's deviation from its liberation development mandate.[18]

The characterisation of GEAR as being a neoliberal experiment also stems from the ANC government's own admission when it communicated that "in isolation certain measures in GEAR are similar to many neoliberal packages".[19] The economic debate in South Africa also tends to assume a state versus the market dichotomy; this is a premise which this thesis rejects as unhelpful. This dichotomy is rejected on the basis that it tends to overlook the interaction between the state and market. It also overlooks the recognition of the interaction between that state and the market as being a product of economic interests exerted upon them by specific classes.[20]

The research questions above have been selected to help us understand the factors that account for post-apartheid South Africa's economic policy choices as well as the democratic dispensation's economic policy making process albeit to a limited degree. Further, they will also assist us in terms of understanding the features that have characterised South Africa's post-apartheid economic landscape. The ANC has placed transformation at the apex of its democratic narrative, as it attempts to reverse the apartheid legacy of structural exclusion of the majority of citizens from participating meaningfully in South Africa's political and economic life.[21] Therefore, asking the above questions will assist us to determine the extent to which the ANC is succeeding in the pursuit of its transformation agenda.

Key gains have been made in 20 years of democratic governance, however; South Africa still experiences high instances of poverty, unemployment and inequality. It has been suggested by scholars such as Anthony Butler that some of the country's developmental challenges can be attributed to a partial failure of the ANC's organisational machinations, or what he describes as 'organisational weaknesses'. Butler states that, "the ANC has found itself unable to advance coherent and credible economic and developmental policies".[22]

[18] Patrick Bond, "Elite transition", Pluto Press 2000, 1-3
[19] "GEAR, the RDP and the role of the State", quoted in Hein Marais, "South Africa –Limits to Change, 160-166
[20] Ben Fine and Zavareh Rustomjee, "The Political Economy of South Africa: From Minerals-Energy Complex to Industrialisation", (C. Hurst & Co. Publishers Ltd, 1996), 71-76.
[21] Ben Turok, " Readings in the ANC tradition-The Road to South African Freedom: The Programme of the South African Communist Party", (Adopted by the fifth national conference of the South African Communist Party), (Jacana 2011), 14-19
[22]Anthony Butler, "Remaking the ANC, Party Change in South Africa and the Global South", (Jacana Media 2014), 1-13.

In attempting to answer the above research questions, this research intends to provide an analysis which attempts to reflect on the political and economic changes and/or continuities in South Africa after the transition to democracy. This will provide a yardstick of the progress the ANC has made as the first democratic government.[23] A singular focus on the organisational capacity of the ANC as suggested by Butler, limits the extent to which the above research questions can adequately reflect changes and/or continuities.

The post-apartheid South African state has hitherto failed to fundamentally alter the structure of the South African economy and thus distributional regime of the state.[24] This has resulted in the persistence in patterns of income inequality, as accurately suggested by scholars such as Nattrass and Seekings. They also suggest that in the post-apartheid context income inequality unfolds less along racial lines as it does along class lines, given the abandonment of explicit racially exclusionary policies.[25] This thesis disagrees with this analysis as it implies somewhat of an equaliser between races and eliminates race as a factor in determining income equality. The burdens of poverty, unemployment and inequality in post-apartheid South Africa, remain disproportionately black, as demonstrated in chapter four of this thesis.

[23] Pons-Vignon N. & Segatti A (2013) 'The art of neoliberalism': accumulation, institutional change and social order since the end of apartheid, Review of African Political Economy, 40:138, 507-518, DOI: 10.1080/03056244.2013.859449

[24] Niccoli Nattrass, Jeremy Seekings, "Class Race and Inequality in South Africa", (Yale University 2005), *

[25] Nattrass and Seekings, Class Race, *

RESEARCH DESIGN AND METHOD

The design of this study adopts the single case study method which intends to provide an in-depth analysis[26] of the case of South Africa's economic planning and performance after 1994. Through selecting South Africa as a case, this study hopes to establish clarity around how the ANC government experienced economic policy decision making after 1994 and what impact this has had on South Africa's economic performance.[27] Therefore, the relevance of the case study method in this instance is applicable given that this study addresses a descriptive central research question as well as secondary research questions.[28]

The focus of this study is to provide answers to the how and why aspects of the research questions posed above. Further, clarity is sought around the contextual conditions within which the ANC deviated from its historical economic philosophy after 1994 and how they impacted on the ANC's economic decision making, as this link cannot be assumed.[29] Therefore, this serves to strengthen the case for applying the single case method.

In the main a qualitative analysis of secondary literature was conducted. This included: ANC and government policy documents, books, academic journals as well as internet based articles and newspapers. The study also describes and analyses historical events and consequently how these have impacted on post-apartheid South Africa's political economic landscape. In terms of the time dimension the primary focus is placed on the period from 1994 to the present, however, the study also looks into the 1970s and 1980s with the aim of reflecting on the economic policy evolution of democratic South Africa.

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[26] Donna M, Zucker, " How to do Case Study Research, University of Massachusetts", (School of Nursing Faculty Publication series , 2009) http://scholarworks.umass.edu/cgi/viewcontent.cgi?article=1001&context=nursing_faculty_pubs

[27] Pamela Baxter and Susan Jack, "Qualitative, Study design and implementation for novice researchers", (*The Qualitative Report* Volume 13 Number 4 December 2008) 544-559. http://www.nova.edu/ssss/QR/QR13-4/baxter.pdf

[28] A very brief refresher on the Case Study Method; http://www.sagepub.com/upm-data/41407_1.pdf

[29] Pamela Baxter and Susan Jack: Qualitative, Study design, 544-559.

CHAPTER STRUCTURE

The first Chapter attempts to provide an overview of the conceptual underpinnings which inform the neoliberal paradigm. In this regard, it links neoliberalism to classical economics ideas deriving from the 18th century, which espouse the idea that human interactions are maximised through the free market. The idea of a free market have shaped various epochs in the evolution of capitalism and were revived in the late 1970s and consolidated in the 1980s with the dominance of neoliberalism. Of particular importance in this regard is the historical context against which South Africa's transition from apartheid to democracy took place. The ANC assumed governance in a post-cold war global political economy which had been punctuated by the collapse of communism and the concomitant rise and dominance of neoliberalism. Neoliberal discourse and practices set the ideological scene for political and economic governance during this time.[30] Therefore an illustration of the theoretical and historical underpinnings of neoliberalism is important in order to contextualise the post-apartheid political- economic landscape and what influenced it.

The second chapter attempts to illustrate the political historical evolution of neoliberalism and demonstrates how South Africa's transition from democracy to apartheid occurred against a global context which was subsumed by neoliberal thinking and practice in the late 1980s going into the early and mid-1990s. It also attempts to demonstrate how the calls for neoliberal reforms in South Africa began with the racist National Party government in the late 1980s through its Normative Economic Model document's macroeconomic policy proposals. Thus, if anything economic planning in democratic South Africa reflects more continuity than a change.

The third chapter attempts to illustrate how the ANC gradually conceded its developmental vision which envisaged a state led growth through redistribution macroeconomic regime, for a transformed post-apartheid South Africa and thus shifted towards and acceptance of the dominant neoliberal status quo. Despite a weighted counter argument from its allies the ANC led government through its key decision makers, insisted in following an orthodox economic path which would give primacy to the markets as a means through which it would achieve its democratic transformation goals.

In the fourth chapter this study aims to illustrate the consequences and thus failures of GEAR to achieve what its architects had professed it would achieve. Through an analysis of the various economic policy frameworks that follow GEAR, this study attempts to demonstrate how these frameworks seem to continue the neoliberal assumptions made by GEAR. It argues that the tendency of neoliberal policies is to demonstrate a progressive social decline which is to an extent evident in South Africa's rising levels of poverty, unemployment and inequality.

[30] Sean Jacobs, My Ten Years of Freedom, 90.

CHAPTER TWO

THE STATE VERSUS THE MARKET: A CONCEPTUAL OVERVIEW

"The central lesson that emerges from this story of the boom and bust- that there needs to be a balance between the role of government and of the market- is one which evidently the world has to learn over and over again".[31] – Joseph Stiglitz

INTRODUCTION

The post-Cold War era saw the resurgence of economic orthodoxy in the configuration of global political economic relations. Thus the thinking which gave primacy to the state as a central actor responsible for the provision of basic social and economic needs gave way to the thinking that the market would better serve this function. The predominance of this belief in the primacy of the market has tended to subordinate the implementation of economic policies which prioritise the needs addressing people's basic needs, whilst prioritising market interests.

This chapter aims to critically examine the widely accepted assumptions of the free market or market fundamentalism, which have influenced the post-cold war political economic landscape in which the ANC assumed governance. It will argue that the notion of a free market is a utopian proposition, which cannot be realised in practice. The consequences of free market policy implementation tend to be antagonistic towards the consolidation of prospects for development. To this end policies which promote significant degrees of state intervention have been more successful as they are more concerned with addressing the needs of the people.

This chapter is organised into two sections, the first section will trace the historical and theoretical assumptions of free market discourse and practice and illustrate the conceptual underpinnings of neoliberalism. The second section aims to challenge the assumptions of the free market and will argue that the notion of a free market is a utopian proposition because every market is governed by some form of regulation in practice. It will emphasise the limitations of the notion of the free market and allude to an alternative paradigm.

MARKET FUNDAMENTALISM, A HISTORICAL AND THEORETICAL OVERVIEW:

The notion of the primacy of a free market or market fundamentalism is the conceptual anchor of Neoliberal thought and practice, as will be demonstrated later. It is rooted in the long standing historical and philosophical tradition of liberalism. Liberalism's central conceptual political and economic tenets respectively, are upholding the right of the individual and maintaining a deep seated belief that a free market is the best means through which economic activity in society can be organised.[32] This history can be traced as far back to political theorists such as John Locke, who posited the idea of popular

[31] Joseph Stiglitz, quoted in Dr Lee Boldeman, "The Cult of the Market: Economic fundamentalism and its Discontents", (University Printing Services, ANU, 2007),3
[32] Andrew Heywood, "Politics", (Palgrave Macmillan, Third Edition 2007), 45-47.

sovereignty and religious tolerance at the end of the seventeenth century. The development of liberalism as a political phenomenon emerged at the beginning of the nineteenth century in Sweden and Spain, with the establishment of the liberal parliamentary caucuses, and spread to the rest of Europe. It was also buoyed by the democratic systems that the Swedish and Spanish were observing in England and America. Liberalism has thus dominated normative political discourse for at least the past six centuries, emphasising its cardinal values of individual freedom and democracy.[33]

The economic dimensions of liberalism or 'economic liberalism' emerged strongly in 19th century England, in Manchester. The Manchester system was premised on laissez –faire economics and closely associated with the notion of 'free-trade'. What was embedded in the notion of free trade was the idea that markets need to be free or unencumbered and this would thus best serve the function of allocating resources in society. The Manchester system was particularly concerned with the repeal of England's Corn Law, which was responsible for the restriction of wheat importation.[34] Drawing heavily from its political dimensions, economic liberalism placed emphasis on the centrality of individual freedom and the primacy of the market in the organisation of economic activity.

The rationale for this could be traced in classical economic thought as reflected in the work of Adam Smith- one of the foremost proponents of market primacy- who argued for the notion of the 'invisible hand' as the best regulator for economic activity amongst individuals who acted in pursuit of self-interest. This served as justification to limit the role of the public good and/or the state to that of observer and enforcer of the rules where necessary. Smith argued that:

> "as every individual therefore endeavours as much as he can to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value, every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intentions. Nor is it always the worse for the society that it was no part of it. By pursuing his own interests, he frequently promotes that of society more effectively than when he really intends to promote it. I have never known much good by those who affected to trade for the

[33] Dag E. Thorson and Amund Lie, "What is Neoliberalism?", (Department of Political Science, University of Oslo), 2-15.
[34] Thomas Palley, From Keynesianism, 20-25.

> public. It is an affectation, indeed, not common amongst merchants, and very few words need be employed in dissuading them from it".[35]

Therefore, as noted by Thorsen and Lie, the classical liberal economic notion emphasises that the state "ought to be minimal, which means that practically everything except armed forces, law enforcement and other 'non excludable goods' ought to be left to the free dealings of its citizens, and the organisations they freely choose to establish and take part in. This kind of State is sometimes described as the 'night-watchman' state, as the sole purpose of the minimal state is to uphold the most fundamental aspects of public order".[36] Thus this conception of the minimal state would be advanced by proponents of market fundamentalism. Centuries later these ideas would find resonance with scholars such as Milton Friedman and Friedrich Hayek- academic economists- who would expound on them, thus bringing them back to the centre of contemporary political economic discourse.

Friedrich Hayek took exception to what he perceived as the dominance of socialist ideas in the 1940s and sought to proactively counter this dominance by championing the philosophy of freedom in political economic discourse. This lead to the establishment of the Mont Pelerin Society in September 1947, a meeting of economic academic philosophers convened by Hayek, who would work to counter the dominance of socialist ideas and advance the ideas of the free market and market fundamentalism.[37]

> "The Society's aim was not to exert an immediate influence on policy but to have a long-term influence on the climate of opinion…The Mont Pelerin Society became the centre of the network that included individuals and organisations concerned to sponsor free market ideas, think tanks, academic economists, including many who were either members of the Chicago school of economics or had been trained there".[38]

Hayek's initiative would set the tone for the conceptual foundation for the ascendance of free-market ideals in late 1970s and beginning of the 1980s.

In 1980 Milton Freidman co-authored a book with Rose Friedman entitled "Free to choose". In this book they expressed support for the ideas of Adam Smith, when they contended that the free market system combined with individual freedom to pursue one's own ends, underpinned by voluntary cooperation, was best placed to allocate the resources required for society to function. The Milton and Rose Friedman argued that:

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[35] Adam Smith, "An Inquiry into the Nature and Causes of the Wealth of Nations", (An Electronic Classic series Publication), http://www2.hn.psu.edu/faculty/jmanis/adam-smith/wealth-nations.pdf

[36] Dag Thorson and Amund Lie, "What is Neoliberalism?",2-15

[37] Roger Backhouse, "Economists and the rise of Neoliberalism", Renewal: A journal of Social Democracy, Vol 17 No 4, 2009, http://www.renewal.org.uk/articles/economists-and-the-rise-of-neo-liberalism/,

[38] Roger Blackhouse, "Economist and the rise of Neoliberalism"

> "Adam Smith's key insight was that both parties to an exchange can benefit and that so long as cooperation is strictly voluntary, no exchange will take place unless both parties do benefit. No external force, coercion, no violation of freedom is necessary to produce cooperation among individuals all of whom can benefit…A predominantly voluntary exchange economy, on the other hand, has within it the potential to promote both prosperity and human freedom".[39]

This elevation of the market was underpinned by a concomitant criticism of state involvement, which they cautioned would be a "sure recipe for tyranny" unless state power was offset by the free market.[40] These ideas which underscored an unwavering belief in the efficiency of the free market gained wide acceptance, however their acceptance has been largely uncritical. It is against this backdrop that this can be referred to as market fundamentalism, the reference to fundamentalism signifies a strict and literal adherence to a set of basic principles in this case those of the free market.[41] The next section will critically analyse and illustrate the limitations of the free market.

LIMITS TO MARKET FUNDAMENTALISM:

When confronting the adherence to the free market and its concomitant assumptions, a critical consideration to be taken into cognisance is that as a matter of fact, the free market does not exist. The extent to which a market is considered to be free hinges on the deliberate refusal to recognise that the rules and/or regulations, through which market actors determine their interaction, are in essence restrictions to the freedom of the market. This argument is well illustrated by scholars such as Ha Joon Chang, for Chang:

> "Every market has some rules and boundaries that restrict freedom of choice. A market looks free only because we so unconditionally accept its underlying restrictions that we fail to see them. How free a market is cannot be objectively defined. It is a political definition…Government is always involved and those free-marketeers are as politically motivated as anyone".[42]

Further, the notion of a free market assumes that the economic function in a society can be separated from the rest of society and that ultimately the market can subordinate all of society to its demands. This is accorded by its 'self-regulating' character. Not only is the notion of a neat separation between the economy and the rest of society a fallacy, the consequences of such thinking can bring to bear insidious consequences to the general harmonious functioning of the society. This is an argument also articulated by thinkers such as Karl Polanyi who suggested that:

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[39] Milton Friedman and Rose Friedman, "Free to Choose: A personal Statement",(Publication house &date),xv - xvi

[40] Milton and Rose Friedman, Free to Choose, *

[41] Merriam Webster Online Dictionary and Thesaurus; accessed* http://www.merriam-webster.com/dictionary/fundamentalism, accessed 07-11-2014.

[42]Ha Joon Chang, "23 Things they don't tell you about Capitalism",(Bloomsbury Press), 10.

> "A self-regulating market demands nothing less than the institutional separation of society into an economic and political sphere. Such a dichotomy is in effect, merely a restatement, from the point of view of a society as a whole, of the existence of a self-regulating market. It might be argued that the separateness of the two spheres obtains in every type of society at all times. Such an inference, however, would be based on a fallacy. True, no society can exist without a system of some kind which ensures order in the production and distribution of goods. But that does not imply the existence of separate economic institutions; normally, the economic order is merely a function of the social in which it is contained".[43]

Therefore the idea that the market should operate as its own arbiter through its 'self-regulating character requires that certain key components -namely land, labour and money- of the production process be commoditised. That is, they can be bought and sold subject to their interaction with price, which is the logic of the market. In essence, it is an artificial proposition. Given that labour and land are in effect human beings and nature respectively, their respective subordination to the market is most likely to be a perilous endeavour.[44] Critically, in this regard Polanyi observes that:

> "In regard to labour, land and money such a postulate cannot be upheld. To allow the market mechanism to be sole director of the fate of human beings and their natural environment, indeed, even of the amount and use of purchasing power, would result in the demolition of society. For the alleged commodity 'labour power' cannot be shoved about, used indiscriminately, or even left unused, without affecting also the human individual who happens to be the bearer of this peculiar commodity. In disposing of a man's labour power the system would, incidentally, dispose of the physical, psychological, and moral entity 'man' attached to that tag. Robbed of the protective covering of cultural institutions, human beings would perish from the effects of social exposure; they would die as the victims of acute social dislocation through vice, perversion, crime, and starvation. Nature would be reduced to its elements, neighbourhoods and landscapes defiled, rivers polluted, military safety jeopardized, the power to produce food and raw materials destroyed".[45]

It is these complexities of human and natural life highlighted by Polanyi which the notion of a self-regulating free market fails to take into account in its artificial postulation of a market

[43] Karl Polanyi , "The Great Transformation: The Political and Economic Origins of our Time", (Beacon Press arranged by Rinehart & Company Inc, 1975), http://www2.dse.unibo.it/ardeni/papers_development/KarlPolanyi_The-Great-Transformation_book.pdf
[44] Karl Polanyi, The Great Transformation, 68-76
[45] Karl Polanyi, The Great Transformation, 73

led society. In recent economic history scholars such as Boldeman have referred to free market adherence as the 'uncritical and excessive adulation of markets'. After the Cold War in particular, the free market has emerged as a dominant paradigm in contemporary political-economic policy formulation.[46] This excessive faith in the market is also fuelled by the privileged status enjoyed by economics in the social sciences, which has unduly rendered economics an overarching determinant of general social and policy action.

Boldeman also observes that "in this regard, it is important to recognise that the exaggerated claim of economic fundamentalism is a claim to moral authority: authority to determine policy directions based on an assertion of superior economic knowledge-knowledge of the way in which the economy operates and should operate".[47] There are limitations to the notion of the centrality of economics in public policy formulation. Consequently, there are also limitations on the notion of market fundamentalism; and individual hard work as determinants for the efficacious allocation of resources in society as advanced by Adam Smith.

The insistence on adherence to the free market does not take into account the coalescing of complex and/or varied social arrangements, which are shaped by uneven power relationships in society; which in turn privilege certain ideas and practices over others, especially when it pertains to the social and economic organisation of society.[48] In this regard scholars Martin Hollis and Edward Nell contend that:

> "Individual incomes do not result from individual hard work but form exercises of power, political decisions, tradition and other social forces; not least the hierarchical organisation of productive work…The clear implication is that there is no natural nor any efficient allocation of incomes. A competitive scramble for incomes is simply a power struggle and there is no hope of basing an 'incomes policy' on the notion of 'productive contribution' or 'efficiency'".[49]

This further attests to the fallacious postulation of the market mechanism being the best option for organising society. It is against this backdrop that we understand that the core principles of neoliberal theory are derived from the liberal philosophical tradition, with its particular conceptions of social and human life which place specific emphasis on individualism and self-interest as the ultimate expression of freedom.[50]

The various epochs in the historical evolution of capitalism have been punctuated by debate around the role of the state in relation to the market. For instance, Ha Joon Chang draws our attention to the conventional neoliberal wisdom which hastens to point out that the

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[46] Lee Boldeman, "The Cult of the Market: Economic fundamentalism and its Discontents", (ANU E PRESS, 2007)
[47] Lee Boldeman, The Cult of the Market, 5
[48] Lee Boldeman, The cult of the Market
[49] Martin Hollis and Edward Nell, quoted in Lee Boldeman, The Cult of the Market, 2
[50] David Harvey; "A Brief History of Neoliberalism", (Oxford University Press INC, New York, 2005),5-38

best recorded historical periods of economic growth and development occurred under conditions of the free market and free trade policy implementation.[51] However, this is a fundamentally distorted depiction of the history of capitalism; to this end Joon Chang suggest that "contrary to the official history of capitalism, virtually all now developed countries (NDCs) have actively used tariffs, subsidies and other measures of intervention, especially in the early days of their development".[52] Earlier in this chapter it was pointed out that the free market is at best an unattainable utopia.

The argument is that state intervention is a necessary ingredient for development as illustrated above. For instance, historically, a weak correlation between economic orthodoxy and job creation can be identified.[53] Neoliberal policies insist on labour market deregulation, the result has been a decline in the real value of the minimum wage and the creation of an insecure work environment. In turn, this has ultimately resulted in a general increase in wage and income inequality.[54] However, this will be explored in more detail later in the thesis. The priorities of neoliberalism are antagonistic towards development priorities precisely because they are primarily concerned with the expansion of markets, facilitating open competition and enhancing mass production.[55]

When the ANC assumed governance after 1994, the expectation was that the new government would address the cruel legacy of racially informed poverty and inequality. Initially the government promoted interventionist economic reforms in the Reconstruction and Development programme (RDP) base document. However, these reforms were soon replaced with the implementation of neoliberal free market biased reforms, concerned mainly with orthodox stabilisation objectives.[56] Whilst not discounting fiscal prudence and sound monetary policy, significant government intervention in South Africa is desirable to ensure that the necessary conditions are in place to attain economic growth that can eliminate poverty and inequality.[57]

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[51] Ha Joon Chang, "The Market , the State and Institutions in Economic Development", 42-45
[52] Ha Joon Chang, The Market, the state, 43
[53] Ian Van Vuuren, "Varieties of Neoliberalism",2013.
[54] Thomas I Palley : From Keynesianism to Neoliberalism, 20
[55] Shamsul M. Haque, "The fate of Sustainable Development under Neoliberal regimes in Developing countries", (International Political Science Review (1999), Vol. 20, No. 2), 197–218 http://profile.nus.edu.sg/fass/polhaque/ipsr-sd.pdf
[56] George Abalu , Firmino Mucavele, Davies N'gon gola, Johan Van Rooyen , Johan F. Kirsten, Johan Van Zyl, Olivier S. Saasa, Tracey Simbi, Gordon Sithole, Nick Vink, "Comparative analysis of Structural adjustment Programmes in Southern Africa: With Emphasis on Agriculture and Trade", (SD Publication Series, Office of Sustainable Development Bureau for Africa, Technical paper no.23, 1996)
[57] George Abalu, Firmino Mucavele, Davies N'gon gola, Johan Van Rooyen, Johan F. Kirsten, Johan Van Zyl, Oliver S. Saasa, Tracey Simbi, Gordon Sithole, Nick Vink, Comparative analysis of Structural adjustment, 31-37

CONCLUSION:

The purpose of this chapter was to illustrate the limitations of the assumptions of the free market. It has traced the historical and theoretical underpinnings of the free market or market fundamentalism which have significantly shaped the conceptual and practical parameters; and thus trajectory of the post-cold war global political economy in which the ANC assumed governance, through the rise of neoliberalism. This chapter has attempted to demonstrate that the proposals advanced by the notion of the free market are at best a utopian proposition and out of touch with the complex social reality of human and natural life. Every market is governed by some form of regulations; therefore a free market in practice is unattainable. This chapter has argued that the prospects for development are significantly diminished by the proposals of free market thinking, as it is less concerned with addressing the basic needs of the people. Attention will now be turned to a critical illustration of the historical international context which gave resurgence to the adherence to the ideas of the free market. The beginning of South Africa's interaction with these ideas will also be highlighted.

CHAPTER THREE

NEOLIBERALISM A HISTORICAL OVERVIEW: SOUTH AFRICA IN A CHANGING GLOBAL ORDER

INTRODUCTION:

The years 1978 to 1980 left an indelible mark on the configuration of global, political and economic history. In 1978 under the leadership of Deng Xiaoping, China embarked on an economic liberalisation path, which steered it away from what was an unmistakable communist economic system. 1979 saw the appointment of Paul Volcker as the head of the US Federal Reserve, Volcker's appointment saw the Federal Reserve assume the lead in combating inflation, with scant regard for consequences, in particular the impact on employment. In May of the same year in Britain, Margret Thatcher was elected as Prime minister, on the electoral ticket that she would curtail trade union power and bring an end to inflationary stagnation, which had afflicted Britain in the preceding decades. The year 1980 saw the election of Ronald Reagan as the US president, his mandate was to buttress the work that Volcker had begun at the Federal Reserve, deregulate industry, and set in motion the ascendance of financial power both domestically and internationally.[58]

The cumulative impact of these events saw a radical reconfiguration of the global political economy. It ushered in a shift away from Keynesian state led developmental economics or embedded liberalism, towards an economic trajectory that accorded primacy to the market, or market fundamentalism as a means for economic organisation. South Africa's democratic transition occurred within this specific global context, this global context was marked inter-alia, by the collapse of the Berlin wall- a symbol of the Cold War- thus signalling the end of Cold War ideological hostilities between the USA and Russia who were the main protagonists, as well as the defeat of communism as political force.[59]

Further, the end of the Cold War saw the acceleration of a new phase-which had been gaining momentum since the 1970- in global political-economic thinking and practice. This brought about an increase in global economic integration which was highly uneven, as well as increased trade liberalisation, deregulation and privatisation.[60] Therefore, when the newly elected African National Congress (ANC) government began to consider and subsequently craft its political economic vision geared towards its transformation aims, it would have to contend with a rapidly shifting global political-economic context which bore features that were not necessarily conducive to the ANC's vision of transformation through a developmental prism.

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[58] David Harvey; A Brief History of Neoliberalism: Oxford University Press, New York, 2005.

[59]Richard Leaver & J.L Richardson, "The Post-Cold War Order: Diagnoses and Prognoses", (St. Leonards, NSW, Australia: Allen & Unwin in association with Dept. of International Relations, RSPacS, ANU 1993),

[60] M T Berger, "The Post -Cold War Predicament: A conclusion". (Third World Quarterly, Vol 22, No 6, 2001), 1709-1085

This chapter aims to critically illustrate how neoliberalism emerged and ascended to consolidate its status as a hegemonic political economic discourse and practice internationally. It primarily argues that concern around the declining fortunes of capital accumulation globally and the subsequent attempt to revitalise them, drove key historical elite actors to set in motion a neoliberal reform agenda for the global economy which would have geopolitical implications beyond the centres of Western European capitalism. South Africa which was located on the southern tip of the African continent was not insulated from these global events, and more so after the collapse of communism in the late 1980s.

This chapter is organised into three primary sections. The first section traces the key historical events which gave rise to the dominance of neoliberal discourse and practice; it also offers a concrete definition of neoliberalism. This section makes the argument that neoliberalism is consistent with the conceptual assumptions made by market fundamentalism and thus informs neoliberal practice, this is important because it underscores the conceptual underpinnings of neoliberalism. However, neoliberalism in practice is at odds with its theoretical assumptions, particularly with regards to the role of the state.

The second section highlights the geopolitical impact of neoliberal practice on the African continent. It argues that the implementation of neoliberal policies adversely affected prospects for development on the African continent. This is important because it illustrates the far reaching influence of neoliberal discourse and practice. The third section analyses the political economic conditions in South Africa which gave rise to neoliberal discourse, which was introduced by the beleaguered National Party government. In this section, it is argued that declining fortunes in domestic capital accumulation informed calls for neoliberal reforms. In a similar fashion to their international counter parts, South African elite actors were at the forefront of agitating for a neoliberal reform agenda domestically. Despite this, South Africa's post-apartheid economic trajectory was not a given. Overall, these arguments aim to account for the factors which precipitated the ANC's shift away from its developmental vision towards adopting economic policies that would prioritise neoliberal economic reforms. .

THE ASCENDANCE OF NEOLIBERALISM AND THE GLOBAL CONTEXT

The period after the Second World War brought about the 'Golden Age of social democratic capitalism' which spanned the period 1950-1973. This was characterised by unprecedented levels of economic growth and industrial expansion for the United States of America (USA) and its European allies. It also marked the United States of America's rise as the hegemonic capitalist centre.[61] Sampie Terreblanche attributes this economic success to a compact within and between Western countries based on:

[61] Sampie Terreblanche, Lost in Transformation, 2012. 17-36

> "two social democratic contracts: a domestic social democratic consensus to create greater social justice and social stability in the domestic affairs of all the capitalist countries in the West; and an international social democratic consensus to stabilise the capital flows and the economic relationship between Western capitalist Countries."[62]

What had essentially emerged after the Second World War was a general consensus that stability and development were desired and that conditions needed to be created to prevent conflict on the scale experienced in the war. [63] In pursuit of this new post war vision various state forms had emerged in the USA and Europe. These ranged from, liberal democratic state in the USA to social democratic, Christian democratic as well dirigiste state forms in Europe. David Harvey, a leading economic theorist notes that:

> "what all of these various state forms had in common was an acceptance that the state should focus on full employment, economic growth, and the welfare of its citizens, and that state power should be freely deployed, alongside of or, if necessary, intervening in or even substituting for market process to achieve these ends. Fiscal and monetary policies usually dubbed 'Keynesian' were widely deployed to dampen business cycles and to ensure reasonably full employment".[64]

This arrangement was buttressed by a 'class compromise' between capital and labour which also served as a guarantor for domestic peace and stability.[65] However, the end of the 1960s going into the mid -1970s saw an end to the post war economic boom and international political- economic stability; The USA and European economies began to experience a serious crisis of capital accumulation.[66] The crisis resulted in a phenomenon known as stagflation, which saw economic slow-down on the on the one hand and high inflation on the other hand.

Such a crisis had not been anticipated by the Keynesian system, which was at this point in disarray.[67] A significant effect that this crisis of capital accumulation had, was that it threatened the economic elite classes in the USA and the respective European countries who had all the while had their power somewhat restrained by the class compromise which had brought about the post war economic boom. The crisis was exacerbated by the OPEC oil

[62] Sampie Terreblanche, Lost in Transformation, 21
[63] David Harvey, A Brief History of Neoliberalism,2005
[64] David Harvey, A Brief History of Neoliberlism,10
[65] David Harvey, A Brief History of Neoliberalism,11
[66] David Harvey, A Brief History of Neoliberalism,12-13
[67] K.S Jomo, "Economic Reform for Whom? Beyond the Washington Consensus", (Post autistic economic review, issue no.35, article 2, 5 December 2005) http://www.paecon.net/PAEReview/issue35/Jomo35.htm

embargo of 1973, which saw acute increases in oil prices thus placing significant financial power in the hands of oil producing states such as Kuwait, Saudi Arabia and Abu Dhabi.[68]

In an attempt to revitalise and reorganise capital accumulation as well as reassert their economic control, the elite economic classes turned to Neoliberalism, which saw the ascendance of orthodox/classical economic thinking and practice in domestic and global political economic organisation. A definition of Neoliberalism would be crucial towards framing a critical discussion of it, therefore, this research will accept David Harvey's definition of Neoliberalism which suggests that:

> "Neoliberalism is in the first instance a theory of political-economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterised by strong private property rights, free markets, and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices. The state has to guarantee, for example, the quality and integrity of money. It must also set up those military, defence, policy, and legal structures and functions required to secure private property rights and to guarantee, by force if need be, the proper functioning of markets. Furthermore, if markets do not exist (in areas such as land, water, education, health care, social security, or environmental pollution) then they must be created, by state action if necessary. But beyond these tasks the state should not venture. State intervention in markets once created must be kept to a bare minimum because, according to the theory, the state cannot possibly possess enough information to second-guess market signals (prices) and because powerful interest groups will inevitably distort and bias state interventions (particularly in democracies) for their own benefit".[69]

Harvey offers a comprehensive definition of Neoliberalism which not only crucially takes into cognisance the intersection between state and market –a contradiction according to neoliberalism- but also demonstrates Neoliberalism's consistency with the ideology of market fundamentalism as espoused by classical liberal and economic traditions.

However, it is also critical to note that Neoliberalism was not an inevitable outcome, as Neoliberal policies resulted from a set of chaotic political-economy experiments which ultimately culminated in the Washington consensus.[70] The USA -under the leadership of Richard Nixon- had experienced severe economic setbacks, moved swiftly to unilaterally fix the gold-dollar exchange, upon Europe's refusal to appreciate its currency in order to improve the international competitiveness of the US. This move coincided with the abandonment of the original Bretton Woods system of 1944 which was responsible for the golden age of State led capitalist economic growth.

[68] David Harvey, A Brief History of Neoliberalism,12-13
[69] David Harvey, A Brief History of Neoliberalism, 2
[70] David Harvey, A Brief History of Neoliberlism, 2

This in turn led the USA to create large amounts of money, effectively increasing its money supply exponentially; thus in turn resulting in the quick accumulation of financial assets. The result of this was increased speculation in the global economy and foreign exchange markets, a practice which had been discouraged by the Bretton Woods conference of 1944.[71] At this point the revitalisation of neoclassical economic orthodoxy was firmly in motion.

Neoliberalism ensured a broad policy agenda which would coalesce against Keynesian thinking. This saw a dogmatic like emphasis on measures such as fiscal discipline which placed emphasis on macroeconomic stability and trade liberalisation. This would lead to the removal of tariffs and other protection measures of domestic economies.

Liberalised financial markets which resulted in the end of state directed credit were prioritised. Emphasis was also placed on the privatisation of state enterprises as well as the deregulation of markets to ensure the ease of competition coupled with an emphasis on foreign direct investment as a means to stimulate economic investment gained centrality. These measures came to be known collectively as the Washington Consensus.[72]

Proponents of Neoliberalism continued to argue that reform of the monetary and banking system were necessary to ensure non- interference with the money supply and that fiscal reform by governments was a necessity. Further, they argued that profound changes in production had taken place in the 1980s following the crisis and therefore, these changes necessitated trade liberalisation and thus the integration of national economies as a means to expand markets.[73] This system was guaranteed by institutions such as the IMF and World Bank, which ensured that governments were accountable to international agencies with regards to trade liberalisation and exchange rate stability.[74]

The cumulative impact of these policies was that they marked a significant turning point in the global economy and brought about the:

> "…subordination of domestic economies to the perceived exigencies of a global economy. States willy-nilly became more effectively accountable to a nebuleuse personified as the global economy; and they were constrained to mystify this external accountability in the eyes and ears of their own publics through the new vocabulary of globalisation, interdependence and competitiveness."[75]

Thus the rise of Neoliberalism was cemented as these arguments gained ascendency. Critics hastened to point out that Neoliberal policies had culminated in diminishing the role of the

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[71] Sampie Terreblanche, Lost in Transformation, 17-36

[72] Diaz L. Frers, "Why did the Washington Consensus policies fail?", Centre for International Private Enterprise Development Institute. (Centre for International Private Enterprise) 1-5 http://developmentinstitute.org/member/diazfrers_consensus/DiazFrers_script.pdf

[73] Thembinkosi Lehloesa, South Africa's Growth Economic And Redistribution Strategy, 19-22

[74] Thembinkosi Lehloesa, South Africa's Growth Economic And Redistribution Strategy

[75] Thembinkosi Lehloesa, South Africa's Growth Economic And Redistribution Strategy,2o

State in crucial spheres of economic and public life, thus exposing vulnerable groups in society to various risks. In this regard, Lehloesa notes that:

> "The infrastructural needs of communities, such as transport, communications and water drains, have also suffered, including the protection of the environment. Low income groups have also been exposed to markets and the participation of people in decision making processes has been steadily eroded".[76]

Harvey notes an inconsistency between what neoliberalism suggested theoretically and what it did in practice. In this regard, he argues that neoliberalism's supposed theoretical distrust of all state power is in contrast with its practice as it depends on a "strong and if necessary coercive state to defend the rights of property, individual liberties and entrepreneurial freedoms".[77] Lehloesa also notes the same inconsistency when he suggests that; "states assist neoliberal demands by enforcing wage restraints, reallocating taxation from conglomerates, conferring property rights and establishing authoritative legal and political structures".[78] This is a thus a crucial demonstration of the contradiction alluded to earlier, in which the supposed resistance of state intervention by Neoliberal theory is in fact not its practice. This aspect will be examined in more detail later in this thesis.

The economic policy influence of neoliberalism has extended beyond the western European capitalist centres and the United States of America. States in various regions of the world have embraced neoliberal policies either voluntarily or under some form of coercion.[79] Various types of capitalist neoliberal experiments also emerged, along the lines of the Anglo American, East Asian and European models.[80]

In post-communist Eastern Europe for instance, neoliberal development reforms resulted in the massive decline in living standards. They were premised on the rationale that attempting to attract foreign mobile capital would lead to rapid development. Instead, the open competition it yielded culminated in severe social disruption and unproductive economic development.[81] The following section will assess the general impact of neoliberal led development on the African continent.

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[77] David Harvey, A Brief History of Neoliberalism, 21
[78] Thembinkosi Lehloesa, South Africa's Growth Economic And Redistribution Strategy,
[79] David Harvey, A Brief History of Neoliberalism,1-4
[80] Ian Van Vuuren, Varieties of Neoliberalism, 2-3
[81] Ian Van Vuuren, Varieties of Neoliberalism, 2-3

AFRICA AND NEOLIBERAL INFLUENCE:

The predominance of Neoliberal development reforms had an adverse impact for developing countries, as alluded to above. The impact was more severe in the African context. Out of the global developing contexts namely; East Asia, Latin America and Africa, Africa has remained the poorest.[82]

Neoliberalism was initially introduced through what became known as the 'shock therapy' phase or the 'Washington Consensus'.[83] When dealing with developing countries in general and African countries in particular it imposed certain prescriptions. These prescriptions included the need to ensure: fiscal discipline, a redirection of public expenditure priorities towards fields offering both high economic reforms and the potential to improve income distribution, such as primary healthcare, primary education and infrastructure, tax reform to lower marginal rates and broaden the tax bone, interest rate liberalisation, a competitive exchange rate, trade liberalisation, liberalisation of inflows of foreign direct investment, Privatisation, deregulation to abolish entry and exit barriers and Secure property rights.[84] In this regard, Wing Thye Woo argued that the Washington Consensus ran the danger of "denying the State its rightful role in providing an important range of public goods".[85]

Former chief economist of the World Bank Joseph Stiglitz noted the adverse impacts of the Washington consensus on the African continent when he suggested that:

> "In Africa, the costs of a simple-minded belief in the magic of the market were palpable and huge. For example, policy conditionalities imposed on the countries of the region, too often focused much too narrowly on liberalization of agricultural prices without adequate attention to the prerequisites to make that effective such as functioning markets for inputs and outputs, credit availability and infrastructure (especially roads); the insistence on static comparative advantage led to the fallacy of composition whereby increasing exports of commodities by many countries led to collapse in their prices; financial sector reforms were focused excessively on making interest rates market determined in very thin and rudimentary markets leading often to prolonged periods of very high interest rates without improving the availability of credit".[86]

Further, the Washington Consensus also meant that policy making processes in Africa were subjected to interference by the World Bank and the IMF, despite continued assertions that

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[82]Wing Thye Woo, Serious Inadequacies of the Washington Consensus: Misunderstanding the poor by the brightest", (Diversity in Development-Reconsidering the Washington Consensus, FONDAD, The Hague, December 2004,www.fondad.org)
http://www.econ.ucdavis.edu/faculty/woo/Woo.Inadequacies%20of%20Washington%20Consensus.pdf

[83] Ian Van Vuuren, Varieties of Neoliberalism, 2-3

[84] Wing Thye Woo, Serious inadequacies, 10

[85] Wing Thye Woo, Serious inadequacies, 13

[86] Joseph E. Stiglitz; "The Post Washington Consensus", (Foundation CIDOB and Initiative for Policy Dialogue, Barcelona September 2004), 5
http://policydialogue.org/files/events/Stiglitz_Post_Washington_Consensus_Paper.pdf

denied this.[87] The impact of interference by the these agencies resulted in limited room for African policy makers to develop policies that were context specific due to excessive conditionalities imposed by the World Bank and IMF.[88] This demonstrated that there was a failure on the part of the Washington Consensus in understanding economic structures in developing countries by focusing on too narrow a set of objectives and on too limited a set of instruments.[89] This ensured that African economies were integrated into a global economic context which was unfavourable to their political-economic and developmental plight, thus imposing severe constraints on policy makers and the policy choices they could exercise. Ultimately, the consequence of the Washington consensus on the African contexts saw a progressive decline in living standards.[90]

Therefore, when South Africa made its political transition to inclusive democratic governance, the African National Congress led Government was faced with the mammoth task of reviving an ailing economy, which it had inherited from its Nationalist Party predecessors. Moreover, the ANC would seek to do so in a way that would enable it to address its transformation aims as articulated in the Freedom Charter and later the Reconstruction and Development Programme base document (RDP). After years of apartheid induced global isolation, the ANC led government would have to contend with a significantly altered global power dynamic, owing to changes brought about by the collapse of the Berlin wall.

The ANC would also have to closely consider questions regarding South Africa's position as a meaningful actor in the global "community of nations". Moreover, a global "community of nations" in which a key ally in the Soviet Union had been significantly weakened, and its political power and communist ideological influence dwarfed in post-Cold War context. Hitherto, the ANC as a liberation movement had relied heavily on the influence of the communist ideology and support from the Russian led Soviet Union.[91]

Despite this reality, the political economic direction that the ANC government would follow was not a given. Competing political economy paradigms such as the developmental approach had also registered critical international successes and thus was even more aligned with the ANC government's RDP vision. Moreover, the existence of the developmental state as evidenced by the East Asian newly industrialised countries (Japan, Taiwan, South Korea, Hong Kong and Singapore) had brought to the fore a concrete

[87] Joseph Stiglitz, The Post Washington Consensus
[88] JJ Teunessin and A Akkerman, "Africa in the World Economy: The National, Regional and International Challenges", Forum on Debt and Development (FONDAD), 2005.
http://www.fondad.org/product_books/pdf_download/5/Fondad-AfricaWorld-BookComplete.pdf
[89] Joseph Stiglitz, The Post Washington Consensus,
[90] Joseph Stiglitz, The Post Washington Consensus,
[91] Mercia Andrews, "The ANC Transformed", Amandla Magazine, February 15, 2015,
http://www.amandla.org.za/amandla-magazine/102-amandla-issue-24/1104-the-anc-transformed-by-mercia-andrews

example of political economic development success which is an alternative to the neo-classical free market dominance.[92]

SOUTH AFRICA AND NEOLIBERAL CONVERGENCE:

-The South African Economy: A historical Perspective

The twilight years of the apartheid era saw increasing demands for neoliberal reforms; this took place against the backdrop of declining fortunes for capitalist accumulation. The 1970s going into the 1980s saw economic growth rates drop below population growth rates by the mid -1980s, consequently economic growth levels stood at 0.9% against population growth over the two business cycles from 1982-83 to 1993-94, effectively resulting in a recession.[93] The recession spanning the period 1989-1993 recorded a fall in real terms of contributions by both the primary sector (in agriculture and mining) as well as the secondary sector (in manufacturing, construction and electricity), this was despite marginal improvements in the trade and finance sectors.[94]

To compound this grim economic outlook, the South African economy experienced a drastic decline in gross domestic fixed investment, domestic investment as a proportion of GDP dropped from 27% to 15 % per cent over the period spanning 1983-1993. Moreover, the early 1990s saw some 40-50% of the economically active population being excluded from the formal economy due to a drastic decline in labour absorption, which fell from 60% to under 40% from the mid -1970s to 1994.[95] Additionally, the creation of jobs relative to the growth in the economically active population was rather insignificant; in this regard Padayachee and Zarenda highlight the fact that "less than 1 in every 10 new entrants into the economically active population was being absorbed into employment in the formal sector".[96]

To a significant extent this grim economic picture was attributable to isolation and/or sanction measures that were imposed on South Africa. The impact of the sanctions saw South Africa's economic growth slow down by approximately 1.5% per annum from the 1980s into the mid -1990s.[97] However, some businesses such as in the mining and agricultural sectors continued to thrive under apartheid labour restrictions, given their heavy reliance on informal or unskilled labour. On the other hand, businesses in the tertiary and services sectors such as trade and finance bore the brunt of South Africa's dire economic prospects. Coupled with advances in technology, the restrictions –external and

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[92] Z Onis, "The logic of the Developmental State", (Comparative Politics, Vol 24, No 1, Oct, 1991,PhD Programme in Political Science of the City University of New York),109-126

[93] J Michie and V Padayachee, "The Political Economy of South Africa's Transition", (The Dryden Press, 1997, Harcourt Brace & Company, Limited),

[94] J Michie and V Padayachee, The Political Economy,

[95] J Michie and V Padayachee, The Political Economy,

[96] Padayachee & Zarenda, quoted in J Michie & V Padayachee, The Political Economy, 13

[97] G.E Schneider, Neoliberalism and Economic Justice in South Africa: Revisiting the Debate on Economic Apartheid. Review of Social Economy, (Vol. 61, No.1 March 2003, Taylor & Francis), 23-50, http://www.jstor.org/stable/29770190

internal –accruing to apartheid policies became untenable. [98] The National Party, now under the leadership of FW De Klerk, began to recognise and discuss the need for economic reforms. De Klerk sought to re-establish a link between the business sector and the state and began to bemoan the political- economic consequences of apartheid. In this regard he stated that the continuation of apartheid "if pursued, it would bring disaster to all peoples of our country-including my own".[99]

Scholars such as Jonathan Michie and Vishnu Padayachee charged that 'political opportunism and economic profligacy'[100] by the National party were also responsible for the economic malaise that South Africa had been experiencing. They noted that "the National party presided over a rapid growth in government debt as a proportion of GDP**.** The budget deficit rose from 0.9 per cent of GDP in 1989-90 to 9.2 per cent in 1992-93 and 10.8 per cent in 1993-94".[101] Despite this rapid increase in the budget deficit, the national debt was still in keeping with international standards of similar income bracket countries as South Africa.

The status quo exposed other fault lines within South Africa's economy; that is the inability of the South African economy to provide basic services for all of its citizens. By 1993, South Africa's debt to GDP ratio stood at 14.8 per cent, compared to 45.8 per cent and 35.2 per cent for severely indebted countries and moderately indebted countries respectively. Effectively, apartheid South Africa's debt management took place at the expense of the delivery of basic services to all of its citizens. This saw the apartheid regime preside over a decade of domestic economic and employment stagnation. In this regard Michie and Padayachee argue that "the apartheid regime had to operate a recessionary domestic economic policy in order to maintain a current account surplus to service the debt. Moreover, apartheid South Africa became the most unequal society in the world, with a Gini-co efficient which measured at 0.68 by 1975".[102] It was against this backdrop of declining fortunes for domestic and international capital accumulation, that the National Party leadership in conjunction with the most affected business sectors began agitating for economic adjustments and/or reforms.

-The emergence of Neoliberal discourse in South Africa

The National Party articulated its proposed economic reforms in the document: Restructuring of the South African Economy: A Normative Economic Model Approach (NEM). The proposals made by NEM assumed a largely neoliberal character. To a significant extent the measures proposed by the NEM document represented what could largely be understood as supply side stimulus measures. These would include the lifting of restrictions, liberalising the markets, integration into global markets –which had hitherto closed South

[98] G.E Schneider, Neoliberalism and Economic Justice
[99] FW De Klerk, quoted in G.E Schneider, Neoliberalism and Economic Justice, 23-50
[100] Padayachee and Zarenda, quoted in J Michie & V Padayachee, The Political Economy, 14
[101] Padayachee and Zarenda, quoted in J Michie & V Padayachee, The Political Economy, 14
[102] Padayachee & Zarenda, quoted in J Michie & V Padayachee, The Political Economy

African business off from attracting and creating investment opportunities abroad- and the creation of a flexible labour dispensation with minimal state regulation.

NEM also proposed a tax reduction to stimulate economic growth and warned that socio-economic upliftment programmes should not be prioritised ahead of the developing the business sector, which it argued would ultimately be responsible for ensuring socio-economic well-being.[103] At the core of these proposals was the assumption that South Africa would need to primarily rely on the market to remedy the economic malaise accruing to years of apartheid restriction and isolationist policies. This was in keeping with the rising international neoliberal current through the influence of the World Bank and IMF, who emerged as some of the key protagonists in South Africa's political economic transition.

The responsibility of rebuilding South Africa's ailing economy would fall squarely on the shoulders of the ANC, who would soon ascend to government on the back of an emphatic electoral victory in 1994 to become South Africa's first inclusive and democratically elected government. The ANC continued to articulate that it viewed its historical mission as ensuring the transformation of South Africa's society and economy through a redistributive economic approach with the state as a key driver, as enunciated by the Freedom Charter. However, the proposals made by the NEM document went against the ANC's ideological vision for a transformed democratic South Africa.

A bid to arrest the decline in capital accumulation in turn resulted in a convergence between domestic, international business and the international financial institutions (IFI's) who sought to secure the triumph of neoliberalism in post-apartheid South Africa through macroeconomic policy. It was at this point that the ANC's attention was drawn to the reality of the highly contested nature of macroeconomic policy. Domestic and international business with the inadvertent aid of International Financial Institutions exerted pressure on the ANC's leadership to adopt a macroeconomic policy direction that would reflect neoliberal interests and endorse the idea of the primacy of a free market.

Throughout the 1990s, a series of corporate planning scenario sessions were organised by the business sector, the first of these was the Nedcor/Old Mutual "Prospects for a successful transition". Between 1991 and 1992 about over 4500 carefully selected South Africans from various societal backgrounds including the ANC had attended sessions proposing the direction to be taken by democratic South Africa.[104]The proliferation of more scenarios and documents saw similar initiatives such as the "Sanlam Platform for investment", the "Mont Fleur Scenarios" as well as the presentation of "Economic Options for South Africa" being promoted by the South African Chamber of Business with the aim of convincing the ANC to accept neoliberal proposals.

[103] Restructuring the South African Economy: A Normative Model Approach*
[104] Ian Van Vuuren, Varieties of Neoliberalism, 45

In 1994 key ANC and government leaders such as Nelson Mandela, Thabo Mbeki, Trevor Manuel and Tito Mboweni, met with the Brenthurst Group –a big business corporate and finance collective- led by Anglo American magnate Harry Oppenheimer. The purpose of this meeting was to secure assurance that the government would endorse the vision presented by them and that the ANC would not promote nationalisation as endorsed by its allies in the SACP and COSATU.[105] After this ideological bombardment the thinking in the ANC and government began to change, this culminated in an announcement in February 1996 by Thabo Mbeki that a new strategy would be followed, thus foregrounding the ultimate adoption of GEAR.[106]

CONCLUSION:

This chapter has attempted to give an overview of the global political economic context within which South Africa began to align itself with neoliberal thinking. It has critically traced the rise of neoliberalism globally and argued that this rise was precipitated by the declining fortunes for capital accumulation both globally as well as domestically. This Chapter has also attempted to locate the impact of neoliberalism on African continent. In this regard it has been argued that the rise of neoliberalism has had an adverse l impact on the African continent due to the restrictive social policies and excessive promotion of private market interests as embodied by the Washington Consensus. Consequently, the adoption of GEAR was foregrounded by incessant efforts by the South African big business sector in partnership with its international counterparts and international financial institutions to exert pressure on the ANC and its key government leaders to accept neoliberal proposals which would ultimately shape the economic policy direction of post-apartheid South Africa.

[105] Ian Van Vuuren, Varieties of Neoliberalism, 45-47
[106] Ian Van Vuuren, Varieties of Neoliberalism,45-47

CHAPTER FOUR

A SHIFT IN GEAR EMBRACING THE MARKET

INTRODUCTION:

With the certainty of democratic governance looming largely over South Africa's political landscape in the early 1990's, the National Party acceded to negotiations with the ANC, albeit reluctantly.[107] Of much significance to the negotiation agendas of both political protagonists, was the nature and shape the political economy would assume in a democratic dispensation. Prior to his release -and as if to quell any doubts about his commitment to the Freedom Charter-Nelson Mandela issued a rather decisive statement of intent with regard to the ANC's economic demands and post-liberation expectations. Nelson Mandela stated that:

> "The nationalisation of the mines, banks and monopoly industries is the policy of the ANC, and the change or modification of our views in this regard is inconceivable. Black economic empowerment is a goal we fully support and encourage, but in our situation state control of certain sectors of the economy is unavoidable".[108]

Despite this statement, the ANC approached the negotiation table with no notable coherent economic policy position it could articulate from the outset.[109] Nevertheless, at this point, the desired economic policy trajectory emanating from the ANC and its alliance seemed unequivocally clear. In keeping with its pursuit of the Freedom Charter objectives, the ANC set about conceptualising a macro-policy framework which would best articulate how the objectives of it Freedom Charter vision would be achieved. Leading up to the elections in 1994, the ANC undertook a wide consultation process with its alliance partners and public at large, a process which culminated in the articulation of Reconstruction and Development Programme (RDP) base document, which would form the economic policy outlook that the ANC would carry into government.

The aim of this chapter is to illustrate the factors which caused the ANC to deviate from its historical Freedom charter vision, which envisaged a state led developmental post liberation political economy which prioritised the pursuit of redistribution as a means for growth. This Chapter will consequently argue that the adoption of GEAR during the transition from apartheid to democracy was essentially an economic policy alignment with neoliberalism. GEAR would prioritise free market neoliberal reforms as a primary means to achieve the transformation. Further, GEAR was a result of a deliberate economic policy outcome which was crafted unilaterally by key decision makers in the ANC who had bought into the neoliberal assumption that development would occur after growth had been attained.

[107]Dale T. McKinley, "*The ANC and Liberation Struggle a Critical Political Biography*: *Returning Home, The strategy and Practice of Accommodation"*, (Pluto Press, December 1 1997).
[108]Nelson Mandela quoted in Naomi Klein, "*The Shock doctrine-The rise of disaster Capitalism*, *Democracy born in Chains*: *South Africa's Constricted Freedom,* (Penguin Group 2007),
[109] Hein Marais, *South Africa -Limits to Change,*

This chapter is divided into five sections; the first section highlights the beginning of the free market ideological assault by domestic and international capital, on the ANC's Freedom Charter based, interventionist developmental economic vision. The argument made in this section is that the ideological assault was consolidated in Davos, when Nelson Mandela was finally convinced to dispense with the idea of a state led developmental economy for post-apartheid South Africa. This is a crucial moment in the ANC as it foregrounds the shift towards embracing free market neoliberal reforms.

The second section illustrates the beginning stages of the ANC backtracking on the freedom charter vision, despite comprehensive alternative developmental proposals presented by the Macro Economic Research Group (MERG). What this illustrates is the manner in which key economic decision makers in the ANC began accepting the possibility of neoliberal reforms as reference to terms such as nationalisation were expunged from official policy documentation. The argument made in this section is that the ANC began to position itself as a trusted ally of the global neoliberal reform agenda.

In the third section this I analyse the events which ultimately led to the ANC government's complete acceptance of neoliberal reforms. Of significance in this section is the internal political battle between the ANC and its allies, who attempt to resist what they recognised as the ANC's shift towards embracing free market neoliberal reforms. This section ultimately argues that the ANC became persistent in its pursuit of free market neoliberal reforms to the extent that it would openly reject political counsel from its close political allies.

The fourth section analyses the adoption of the Growth Employment and Redistribution Strategy (GEAR), which consolidated the ANC government's alignment with free market neoliberal reforms. This section illustrates the highly centralised and elite driven nature of the crafting and ultimate adoption of the GEAR strategy. It also illustrates the neoliberal assumptions made by the GEAR strategy and argues that GEAR was a stark deviation from the Freedom charter inspired state led developmental vision.

In the final section I analyse the reasons why the shift towards GEAR occurred. This is important in that it demonstrates the convergence between old and new elites whose interests coalesce in the adoption of GEAR. The principal argument made in this section is that the shift towards free market neoliberal reform as evidenced by the adoption of GEAR was a conscious and deliberate manoeuvre by the elite in the ANC who acted unilaterally and had bought into the ideas of neoliberal reforms.

THE ANC's IDEOLOGICAL BATTLE FOR TRANSFORMATION: THE DAVOS MOMENT

Many years after its formation in 1912 the ANC arrived at a point which saw it align its economic thinking with the Freedom Charter of 1955, which asserted a redistributive state led approach in terms of dealing with South Africa's economic transformation question. This sentiment had also been confirmed by the ANC's Harare conference in April of the year

1990, wherein the ANC had tabled its economic views.[110] This stance by the ANC would invoke resistance by the South African business establishment as well as the Nationalist Party regime. This saw the likes of Thabo Mbeki assume a prominent role in positioning the ANC as rational and in touch with South Africa's economic reality, as it attempted to assuage the white business elite.[111]

Thabo Mbeki brooked a significant amount of criticism for this role from some of his comrades on the left of the political spectrum, who perceived him as collaborating with the enemy. Ultimately the end of the cold war made the ANC painfully aware of the fact that the road to transition would not be simple and/or straightforward. Yet, even at this point in its 1990 Harare Declaration, the ANC maintained that a significant degree of state intervention remained desirable in order to meaningfully dismantle the pernicious socio-economic legacy of apartheid. [112]

After the ANC's unbanning, Nelson Mandela would continue to vociferously assert that the ANC's political economic trajectory would encompass extensive state intervention. He would even cite the example of what countries such as Britain, Germany and Japan had done by harnessing state-owned industry to reconstruct their economies.[113] However, this economic vision would not go unchallenged. Economists such as Niccoli Nattrass criticised the ANC's economic vision, citing that it was vague and that it did not provide sufficient detail. She further asserted that the major problem in South Africa was the drying up of private investment and that what government needed to do was to forge policies which would stabilise the macro- economic environment and thus encourage investor confidence.[114] Further, resistance of the ANC's economic vision came from the established big business sector, mainstream economists and the media, who cited that it bore socialist undertones and that it was nothing but macroeconomic populism aimed at appeasing the various constituencies within the ANC.[115] They maintained their charge that the ANC was proposing "a state spending spree geared towards distribution would overheat the economy, and bog it down in a morass of foreign exchange shortages, currency devaluations, rampant inflations, severe indebtedness and cuts in real wages".[116]

It was not until February of the year 1992 when he attended the World Economic Forum in Davos Switzerland, that Nelson Mandela was persuaded to dispense with the idea of extensive state intervention and ownership or nationalisation. The Dutch minister whilst sympathetic to his nationalisation argument hastened to point out how significantly intertwined or interdependent economies were now due to the process of globalisation;

[110]Hein Marais, South-Africa Limits to change,147-148
[111]Hein Marais, *South Africa* -Limits to Change*,*
[112] William M. Gumede, "Thabo Mbeki and the battle for the soul of the ANC", (Zebra Press 2005), 67-95
[113]William M. Gumede, Thabo Mbeki, 70
[114]Thembinkosi L. Lehloesa, South Africa's Growth Economic And Redistribution Strategy*,* 56
[115] Hein Marais, *South Africa -Limits to Change,*
[116] Hein Marais, South Africa-Limits to Change, 149

and that no economy could exist independently from other countries. [117] It was the leaders from China and Vietnam who ultimately seemed to hold sway in convincing Nelson Mandela that nationalisation was no longer a viable political economic pursuit, especially in a post-Cold War context that was without the political-economic and ideological influence of the Soviet Union, which had all but collapsed.[118]

Moreover, the collapse of the Soviet Union had exposed an intellectual vacuum on the socialist left which seemed to lack the requisite preparedness to conceptually grapple with a post Soviet Union global political economy. This created fertile intellectual ground for the triumph of neoliberalism, which hastened to assert that no alternative to the neoliberal paradigm was possible.[119] After vociferous debate and discussion within the ANC and between the ANC and its South African Communist (SACP) allies, Nelson Mandela and Thabo Mbeki had succeeded in influencing the ANC to dispense with nationalisation from all of its policy documents.[120]

THE TRIUMPH OF ORTHODOX ECONOMICS:

The disappearance of nationalisation from the ANC's policy documents was indicative of the beginning of a shift away from its historical economic vision which saw state intervention and thus redistribution as a pivotal pillar towards achieving transformation. However, this change in economic direction did not occur without contestation from the ANC's left leaning allies. In November 1991 the Congress Alliance commissioned and launched the Macro Economic Research Group (MERG) with the assistance of the Canadian International Development Research Centre.[121] The aim of the MERG research was to counter the market driven proposals which were used to sway ANC leaders such as Nelson Mandela. In this regard, the MERG strategy would place strong emphasis on the idea of growth through redistribution.[122]

The vision proposed by the MERG strategy would see a strong private sector and public sector cooperation. This would unfold along two phases, the first phase envisaged by the MERG strategy would entail a public investment led phase from the period 1993 to 1999. According to the MERG strategy it was envisaged that there would significant state investment in social and physical infrastructure, i.e. housing, education, health, electrification and road development. This would account for over 50% of growth in the first phase.[123] This would be followed by a second sustained growth phase, with a predicted 5% annual growth by 2004 and the creation of 300 000 new jobs per annum. [124]

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[117] William M. Gumede, Thabo Mbeki, 70
[118] William M. Gumede, Thabo Mbeki, 71
[119] Taylor and Williams*
[120] Ibid.*
[121]Hein Marais, *South Africa -Limits to Change,*
[122]William M. Gumede, Thabo Mbeki, 74
[123] William M. Gumede, Thabo Mbeki, 74
[124] Hein Marais, *South Africa -Limits to Change,*

Further, the state would "apply a strategic mix of incentive and regulations to improve industrial performance and exercise more control of Reserve Bank".[125] The pro market proposals made by international financial institutions and the Nationalist Party were deemed as characteristically anti-labour; and thus unsuitable for the structure of what would be a post-apartheid South African economy. The proposals made by the MERG strategy were aimed at creating a more egalitarian political-economy environment in post-apartheid South Africa.

The International Monetary Fund (IMF), the World Bank as well as the South African business elite continued to exert pressure on the ANC government in waiting and its core leadership structures. Key leaders such as Trevor Manual and Tito Mboweni were targeted for training in orthodox international economics, as if to ensure that any notion of growth through redistribution would be completely abandoned. White business retaliated to the MERG report by labelling it "macroeconomic populism" and a "dangerous fantasy".[126]

The pressure finally brought to bear when the ANC leadership agreed to and signed an $850-million IMF Compensatory and Contingency financing Facility. This was a financing facility extended to South Africa to assist South Africa with servicing its balance of payments. However, this would occur along neoliberal dictates imposed as conditions to the finance facility.[127] Some ANC leaders described this apparent shift as somewhat inevitable in a post-cold war new global economic order; Mac Maharaj stated that "there were no examples to learn from or use as a guide…we could not go it alone. Countries that did, such as Sweden, had the space to do so with the Cold War still raging and the world being bipolar. The ANC came to power at the end of the Cold War in a unipolar world. We had no room to manoeuvre." [128]

During this time, contexts such as Cuba, the Soviet Union and Eastern Europe upon which the ANC government would have based its economic decisions were in crisis. This made the ANC somewhat risk averse as it deemed that continuing in what it had initially envisaged would lead to isolation in a global economic context dominated by the triumph of Neoliberalism. Jeremy Cronin, a leader in the ANC's Congress Alliance explained that: "The triumph of neo-liberalism was at its Zenith in the early 1990s…The core aspects of the neo-liberal paradigm became very influential in government circles and leading parts of the ANC".[129] Confronted with the prevailing global political economy current in neoliberalism, the ANC began an endeavour to position itself as a capable African government that could preside over policies that were palatable to a dominant international economic paradigm.

CONSTRAINTS ON DEVELOPMENT: EMBRACING THE MARKET

[125] William M. Gumede, Thabo Mbeki, 74
[126] William M. Gumede, Thabo Mbeki, 74
[127] Padayachee & Zarenda: quoted in J Michie & V Padayachee, The Political Economy,
[128] William M. Gumede, Thabo Mbeki, Pg.
[129] Jeremy Cronin quoted in William M. Gumede, Thabo Mbeki,76

Notwithstanding the domestic and external pressure on the ANC and the subsequent shift in economic thinking that had occurred amongst its key leaders. The ANC's alliance partners (COSATU and the SACP), along with other ANC leaders who were on the left of the political spectrum remained resolute about the developmental economic vision they sought to realise in post-apartheid South Africa. The ANC and its alliance partners had reached a general political consensus to cooperate in terms of formulating economic policy. In particular, the alliance participated in formulating the ANC's "*Recommendations on Post-Apartheid Economic Policy"* and subsequently the document "*Ready to Govern*". Both these documents enunciated a developmental perspective that would underpin the economic policy of a post-apartheid South African state. The stance enunciated in the ANC's "Recommendations on Post-Apartheid Economic Policy" document was informed by a reading of the obtaining socio-economic realities which characterised South Africa, which it viewed as a reflection of apartheid distortions.[130]

To this end, the document concluded that the obtaining economic policy reality in South Africa not only failed to meet the basic needs of the mass population of the country, also, the state and capital strategies that were in place were unlikely to result in the alleviation of poverty and mass depravation.[131] The document also argued in favour of a developmental state, to this end, they specifically argued that "within the context of a mixed economy, the democratic non-racial state would assume the leading role in the reconstruction of the economy in order to facilitate the realisation of its developmental objectives". [132] In addition Lehloesa helps us understand that:

> "The document proposed that reconstruction would be financed through domestic savings. It also proposed an increase in taxation for companies, the regulation of capital markets and the retention of exchange controls. In addition it, it stated that foreign investment would be directed for the purposes of employment creation. Further, it envisaged the development of a new industrial strategy which would be capable of meeting the basic needs of the people."[133]

The "Ready to Govern" document also committed itself to eliminating poverty, promoting democratisation, encouraging the redistribution of income as well as initiating growth and development.[134] These were economic principles that were firmly in line with the vision enunciated by the Freedom Charter.

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[130] Thembinkosi L. Lehloesa, South Africa's Growth Economic And Redistribution Strategy,
[131] Thembinkosi L. Lehloesa, South Africa's Growth Economic And Redistribution Strategy,
[132] "Ready to Govern, 1992", quoted in Thembinkosi L. Lehloesa, South Africa's Growth Economic And Redistribution Strategy, 42
[133]"Ready to Govern, 1992, quoted in Thembinkosi L. Lehloesa, South Africa's Growth Economic And Redistribution Strategy, 42
[134] Ready to Govern, 1992, quoted in Thembinkosi L. Lehloesa, South Africa's Growth Economic And Redistribution Strategy, 42

Thus, the scene was set for the emergence of the Reconstruction and Development Programme (RDP). In 1993 the National Union of Mineworkers-an affiliate of COSATU-initiated a debate in the tripartite alliance around the "Reconstruction Accord". The Accord was subsequently redrafted and submitted to the ANC's 1994 Conference on Reconstruction and Strategy for the purposes of discussion. The final outcome was a Conference resolution to adopt the Reconstruction and Development programme (RDP), which it would utilise as its manifesto for the general elections in 1994.[135] COSATU's support of the ANC's election campaign was aimed at ensuring that once in government; the ANC would pursue the implementation of pro-labour policies. Thus, COSATU's support proved critical for the ANC as it secured an emphatic electoral victory in 1994.[136]

The political significance of this process cannot be overstated. The adoption of the RDP was preceded by a series of workshops and consultations, which also included another ally of the ANC, in the South African National Civic Organisation (SANCO) a Civil Society formation, thus strengthening the notion of "people-driven" development.[137] In this regard, SANCO emphasised that "People-driven development, is more than communities simply agreeing to projects. It means they must take an active part in determining the very nature of the project, in designing it, and even in organising the construction work".[138] Politically, this 'bottom-up' approach signalled the centrality of inclusion and consultation in the ANC's economic policy formulation approach. As a result, the RDP enjoyed wide support as also evidenced in the ANC's election campaign, in which People's Forums were convened, where people discussed and endorsed the RDP.[139]

At the centre of the RDP's vision, were the principles of democratisation, meeting basic needs, the development of human and economic resources and the management and monitoring of reconstruction and development. The RDP contended the apartheid had denied the majority black population basic access to services such as health, electricity, housing, water and education. Further, it contended that the National Party had restructured and privatised the economy, a move which had the devastating impacts of rising poverty, unemployment and inequality.

The centrality of the role of the state was also emphasised by the RDP, which envisaged that the state would lead the realisation of reconstruction and development through the building of infrastructure. This would subsequently lead to the link between growth, reconstruction and development. Further, the RDP envisaged that growth would be realised through the

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[135] Ready to Govern, 1992, quoted in Thembinkosi L. Lehloesa, South Africa's Growth Economic And Redistribution Strategy, 42

[136] Wessel Visser, "Shifting RDP into GEAR, The ANC Government's Dilemma in Providing an Equitable System of Social Security for the "new" South Africa",(Paper presented at the 40th ITH Linzer Konferenz, 17 September 2004), http://sun025.sun.ac.za/portal/page/portal/Arts/Departemente1/geskiedenis/docs/rdp_into_gear.pdf

[137] Wessel Visser, Shifting RDP into GEAR,

[138] Thembinkosi L. Lehloesa , *South Africa's Growth Economic And Redistribution Strategy,* 43

[139] Thembinkosi L. Lehloesa , *South Africa's Growth Economic And Redistribution Strategy,* 43

significant promotion of exports.[140] Analysts such as Bill Freund argued that the proposals of the RDP were balanced and informed by South Africa's socio-economic reality; he concluded that the RDP represented "a realistic balance between private opportunity and State regulation as the means through which change must occur. It is in line with international trends and does not place unrealistic hopes on an all-benevolent state". [141]

However, other analysts argued that whilst the RDP was laudable, it suffered a scarcity in detail. For example, Philip Dexter argued that the RDP was weak on its means of implementation and cautioned that it was open to interpretation by various stakeholders and their interests. In defence of the RDP the alliance partners argued that the attacks on the RDP were informed by interested class bias. To this end, they stated that

> "Our class opponents have failed to defeat us. They have now been forced back into working within our Reconstruction and Development Programme. But they are doing so with their own agenda- to dilute, to subvert and generally to frustrate our attempts to empower the majority of South Africans."[142]

After the 1994 election, the ANC set about implementing the RDP. Comprehensive structures were put in place towards this end. These included an RDP office which would see to it that RDP programmes were initiated, well -coordinated and managed with the relevant line departments. A special RDP fund was set up and the former Secretary General of COSATU. Jay Naidoo was appointed as Minister without Portfolio to run the RDP office.[143] The National Institute of Economic Policy (NIEP) was tasked with projecting the costs of the RDP. The NIEP proposed that the RDP should be funded through efficient tax collection, private sector contributions, and contributions by state owned entities. It estimated that the implementation of the RDP would cost the government R135 million.[144]

In the initial phases of RDP programme implementation, there seemed to be some traction which registered critical social gains. The government ensured the implementation of a comprehensive welfare system, which saw the provision of free healthcare programmes for pregnant women and young children, school feeding schemes were also rolled out to the benefit of between 3, 5 to 5 million children. [145] Further, access to water and sanitation, energy and electrification, education and social welfare was expanded. For instance, a number of grants were established with regard to social welfare, such as the Child Support Grant, Old Age Pension and the Disability Grant to name but a few. [146]

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[140] Thembinkosi L. Lehloesa , South Africa's Growth Economic And Redistribution Strategy*,*

[141] Bill Freund quoted in Thembinkosi L. Lehloesa, South Africa's Growth Economic And Redistribution Strategy, 41

[142] Thembinkosi L. Lehloesa: South Africa's Growth Economic And Redistribution Strategy, 45

[143] Wessel Visser , Shifting RDP into GEAR, 7

[144] Thembinkosi L. Lehloesa, *South Africa's* Growth Economic And Redistribution Strategy*,*

[145] Wessel Visser, Shifting RDP into GEAR *,* 7.

[146] M Reitzes, "The Impact of Democracy on development: The Case of South Africa", (Centre for Policy Studies September 2009,Research Report 120, W. K Kellogg Foundation),

The RDP was soon plagued by incapacity and subsequent implementation problems, which resulted in backlogs in the provision of basic services. It has also been argued in some quarters that the problem with the RDP was that it was too broadly formulated and did not spell out a detailed programme in relation to its main aims.[147] Scholars such as Patrick Bond contend that the RDP was stifled and consequently was "fatally undermined by timid politicians, hostile bureaucrats and unreliable private sector partners".[148]

In September 1994, the ANC led government released the RDP White Paper; this paper signalled a break with the developmental objectives which had hitherto informed the RDP.[149] In contrast to the RDP base document, the RDP White Paper began to emphasise the need to ensure fiscal prudence as well as the need to redefine the role of government and the public sector. To this end it argued that the government had to reduce expenditure, further, it emphasised 'growth and development' in direct contrast with the RDP base document which had emphasised 'development with growth'. This sparked criticism from analyst like Ben Fine who argued that the "RDP was being diminished in its content and the means to implement it".[150] This change culminated in the closure of the RDP Office in March 1996. The government justified this closure by arguing that the relevant Ministries were able to integrate reconstruction and development into their respective programmes, making the RDP office superfluous. Against this backdrop, the RDP programmes experienced severe funding constraints. The ANC highlighted that it had inherited a nearly bankrupt State, due to the apartheid regime's mismanagement of the state as it attempted to prolong it hold on power, thus accumulating high levels of state debt.

The ANC government emphasised that high levels of state debt had brought pressure to bear. In light of this, the ANC government cautioned that "it is important to note that costs will continue to increase and accelerate as a percentage of the GDP unless the deficit is brought down to sustainable levels".[151] This elicited criticism from the ANC Alliance partners. Blade Nzimande and Jeremy Cronin in particular criticised this argument on the basis that it had introduced a 'balancing act'.

The SACP in particular, cautioned against an economic restructuring that advocated for the subordination of workers to the interests of capital.[152] On the other hand, a coalition of big business in South Africa, under the Growth For All Strategy of the South African Foundation, continued to argue for a more prominent role for markets in economic growth, fiscal

[147] Wessel Visser, Shifting RDP into GEAR,7.
[148]Patrick Bond quoted in Wessel Visser W, Shifting RDP into GEAR, 8.
[149] Asghar Adelzadeh, "FROM THE RDP TO GEAR: THE GRADUAL EMBRACING OF NEOLIBERALISM IN ECONOMIC POLICY", (Transformation 31, 1996), http://archive.lib.msu.edu/DMC/African%20Journals/pdfs/transformation/tran031/tran031006.pdf
[150] Ben Fine quoted in Thembinkosi L. Lehloesa, South Africa's Growth Economic And Redistribution Strategy,54
[151] "ANC, The State and Social Transformation" quoted In Thembinkosi L. Lehloesa, South Africa's Growth Economic And Redistribution Strategy, 55
[152] Thembinkosi L. Lehloesa, South Africa's Growth Economic And Redistribution Strategy,

discipline, consistency in economic policy, promotion of investor confidence as well as the need for the government to act emphatically and decisively with regards to economic policy implementation.

THE ADOPTION OF GEAR

In 1996 South Africa experienced a currency crisis. This resulted in a significant loss in value in the domestic currency. In February 1996, the value of the South African rand plummeted significantly.[153] By May 1996, the Rand's value had fallen by per cent against the American dollar. The Financial Mail reported that the consumer price index had risen by 6.3% per cent and that banks had increased their prime lending rates to over 13% per cent. The crash of the Rand was subsequently interpreted by some analysts and economists alike as a signal that investors were not happy with the South African macroeconomic policy environment. Against this backdrop, the SACP cautioned that the Rand's loss of value was "being used as an opportunity to make all kinds of ideological pronouncements".[154]

The warning issued by the SACP fell on deaf ears, a panic stricken ANC government responded to the currency crisis by unveiling the Growth Employment and Redistribution (GEAR) macro-economic strategy in June 1996.[155] The GEAR would now inform the direction of South Africa's macroeconomic direction environment going forward. Unlike the widely consultative and inclusive nature of the RDP, the drafting of the GEAR was undertaken by a carefully selected team comprised of senior bureaucrats, academics international and local, as well policy makers from the IMF and World Bank.

The key South African Government departments which were involved in the drafting of the GEAR were the Departments of Finance, Trade and Industry and Labour. [156] One of the drafters of the GEAR, a senior official in the Department of Trade and Industry, stated that the consultations in the drafting of the GEAR occurred at a "high level" within government and were confidential. Another member of the drafting team, who initially represented the World Bank and then later the Department of Finance, confirmed that the input of government departments in the drafting of the GEAR strategy was substantial. Members of the South African Reserve Bank (SARB) as well as the Development Bank of Southern Africa (DBSA) were also included in the drafting process. [157]

Two main reasons were given by the drafting team for the lack of wider consultation and inclusion in the drafting of the GEAR strategy. The first was the fact that the GEAR document had to be produced in a short space of time. The second was that the drafters were

[153] T Knedik, "Signalling Currency Crisis in South Africa" , (Paper presented at the SARB Conference 2006", https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/56/Knedlik.pdf
[154] Thembinkosi L. Lehloesa, South Africa's Growth Economic And Redistribution Strategy, 56.
[155] Thembinkosi L. Lehloesa, South Africa's Growth Economic And Redistribution Strategy, 57.
[156] Zane Dangor, "The Policy Process behind the Growth Employment and Redistribution Strategy (GEAR)"(MA thesis University of Witwatersrand, 1997), Ch3 49-76.
[157] Zane Dangor, The Policy Process behind

sceptical about the about the quality of inputs emanating from civil society.[158] In this regard, they suggested that past attempts at consultation with partners such as civil society demonstrated a lack of coherence on the part of civil society's approach to macroeconomic policy, thus weakening their policy "voice" on economic issues. However, members of the drafting team unanimously acknowledged that there perhaps was a need to for wider consultation and inclusion. However, this was "impossible" as "the currency was in free fall and consultations would have delayed the publication of GEAR for too long".[159]

Another factor that was highlighted as a justification against inclusivity was the sensitive nature of some of the measures proposed by the document. It was suggested that items such as exchange controls warranted non-disclosure. One of the authors went as far as stating that; "further exchange controls contained in the report were very sensitive and could not be broadcast before the plan was made public".[160] Dangor also highlights that an academic on the drafting team suggested that "when it comes to participation in macroeconomic policy development, it is important to distinguish between the issues that demand secrecy and those that can be and should be subjected to a participatory policy making process".[161] Thus the value of secrecy was upheld as crucial to the drafting process of the GEAR strategy. Politically, this marked a stark deviation from the consultation and inclusivity which had previously been the hallmark of the ANC's economic policy formulation approach. Then Finance Minister Trevor Manuel sounded the death knell on inclusive economic policy formulation within the ANC and Alliance, when he declared the GEAR strategy 'non-negotiable'.[162]

In terms of its policy propositions, the GEAR strategy would also differ from its RDP base document predecessor. In this instance, the GEAR strategy shifted the emphasis from what had previously been a secondary consideration, to a primary consideration. The GEAR strategy placed macroeconomic reform at the forefront of South Africa's macroeconomic policy agenda and development subsequently became a secondary consideration.[163]

The GEAR strategy proposed that it would create a competitive fast growing economy, with its architects arguing that a growth rate of 3%, the rate at which South Africa was growing was unsustainable. GEAR predicted that it would thus be able to facilitate a growth rate of 6% by the year 2000 and create 400 000 jobs per annum by the same year. This it proposed would occur through the "promotion of non-gold exports, the expansion of private investment, liberalisation and the introduction of a flexible labour market".[164]

[158]Zane Dangor, The Policy Process behind
[159]Zane Dangor, The Policy Process behind,60-61
[160]Zane Dangor, The Policy Process behind, 61
[161]Zane Dangor, The Policy Process behind, 61
[162] Wessel Visser, Shifting RDP into GEAR,11
[163]Zane Dangor, The Policy Process behind GEAR,
[164] Thembinkosi L. Lehloesa, South Africa's Growth Economic And Redistribution Strategy,5

GEAR also sought to reduce Government spending relative to GDP, to introduce a more flexible labour market and to phase out exchange controls in a manner in which it argued would be prudent. At its core, the GEAR strategy was concerned with reducing the budget deficit, which it viewed as means to rectify economic mismanagement by the National Party regime. GEAR -perhaps somewhat paradoxically- was also positioned as a vehicle to realise the RDP. Thabo Mbeki pronounced that “this policy is the central compass which will guide all other sectoral growth and development programmes of the government aimed at achieving the objectives of the RDP”.[165] Analysts such as Asghar Adelzadeh of the NIEP, questioned GEAR’s proposals and projections and described them as arbitrary.

In this regard Adelzadeh argued that the World Bank viewed a 12 per cent deficit as still sustainable and that South Africa had not experienced uncontrollable inflation in the last 30 years at the time.[166] Further, Adelzadeh was critical of GEAR’s proposal at raising the exports GDP ratio to 25 per cent, citing that it was higher than in OECD and East Asian countries. He also expressed concern that the growth targets of GEAR hinged on the moderation of wages and the stimulation of private investment, Adelzadeh concluded that “the proposed framework and policy scenarios represented an adoption of the essential tenets policy recommendations of the neoliberal framework advocated by the IMF in its structural adjustment programmes”.[167] Therefore, not only did the GEAR strategy represent a stark deviation from the ANC’s culture of inclusivity on the political level, economically, it signalled an unquestionable move away from the developmental growth through redistribution vision which was envisaged by the ANC, as enunciated by the Freedom Charter and subsequently the RDP base document.

At this juncture it was all too clear that the ANC had abandoned its vision which envisaged that the transformation of post-apartheid South Africa would occur along a macroeconomic framework –and concomitant policy programmes- predicated on development and redistribution as its core pillars. The more vexed discussion unfolds around the reason or reasons that the ANC did so.

[165] Thabo Mbeki quoted in Hein Marais, South Africa –Limits to Change,
[166] Asghar Adelzadeh, FROM THE RDP TO GEAR,
[167] Asghar Adelzadeh, FROM THE RDP TO GEAR, 67

WHY GEAR?

Much has been said and written in attempting to answer the question or questions around why the shift to GEAR occurred. For example, scholars of South Africa's political economy of transition, such as Adam Habib, highlight two broad explanations in the mainstream discourse. One argument, from more of a left leaning perspective suggests that ANC elites 'sold out'. The other line of argument albeit on the right of the political spectrum, argues that the ANC elites had finally seen the light and had somewhat come to their senses. Habib dismisses both sides of this argument as 'deficient', as they suggest homogeneity amongst actors, suggesting that homogeneity could not have existed in a context with a high turnover of elites. Further, such an argument overemphasises the role of elites. [168]

Habib also highlights the argument which suggests that there were weak links between those who were tasked with ushering in a macroeconomic policy which reflected the ANC's developmental desires and the ANC decision makers at the time, thus this is how the developmental vision was lost. Habib also dismisses this argument as oversimplifying the policy decision making process taken by the ANC leadership.[169]

Scholars such as Patrick Bond on the other hand, suggest that political timidity thwarted the advancement of a viable developmental post-apartheid macroeconomic vision.[170] Other explanations offered by the likes of Hein Marais allude to the structural constraints of 'realpolitik' which the ANC had to deal with, given the changes occurring in the global political economic arena. These changes it is suggested resulted in the ANC's inability to follow through on its Freedom Charter and RDP base document vision for a post-apartheid South Africa.[171]

To the extent that macroeconomics became a key site for contestation during South Africa's transition period from apartheid to democracy, the ANC conceded the contest to established market interests. Therefore, the decision to adopt GEAR can be characterised as embodying a set of layered and yet interconnected political and economic factors. Firstly, it reflected what could somewhat be seen as an assertion of elite class power, which secured a convergence between old and new elites. Secondly, GEAR's adoption demonstrated the strength of established old South African capital (which the ANC may or may not have underestimated). In this regard Maganya notes that:

> "One aspect of policy-making which makes South Africa stand out from many other African countries is the role of local capital. This particular aspect of South Africa's political-economy will be important when considering the reasons behind the adoption of a typical neo-liberal package in 1996. The presence of a strong national

[168] Adam Habib, "South Africa's Suspended Revolution: Hopes and Prospects", (WITS University Press, 2013)
[169] Adam Habib, "South Africa's Suspended Revolution,
[170] Patrick Bond quoted in, Adam Habib A, South Africa's Suspended Revolution,
[171] Hein Marais. *South Africa -Limits to Change,*

capitalist class, albeit one dominated by one race (whites), has been a critical factor in policy formulation".[172]

GEAR resulted in the consolidation of old domestic capitalist class interests in the democratic dispensation thus cementing the endorsement of free market principles or the primacy of the market as a means through which transformation goals would be realised.

Lastly, and more importantly, the adoption of GEAR can be seen as a deliberate policy choice by the new elite (ANC leadership), thus cementing the convergence between old and new capitalist class interests. To this end, GEAR demonstrated a willingness by the ANC elite to accept free market ideas as a means to achieve its transformation goals. Key figures in the ANC government had bought into the promises of neoliberalism, between 1994 and 2001 they had been seduced into occupying important international positions as board of governors in the IMF and World Bank.[173] In South Africa the result became a rapid assimilation of the new elite into participating in the prevailing capitalist modes of production through black empowerment schemes, which were characterised by the dominance of the Minerals and Energy Complex (MEC) as well as the financial sector.[174] Ben Fine, a leading analyst on South Africa's economy, characterises the Minerals and Energy Complex as "the mining and energy sectors and a number of associated sub-sectors of manufacturing, which have constituted and continue to constitute the core site of accumulation in the South African economy".[175] These characteristics have shaped much of South Africa's post- apartheid political economy.

The elite bias in GEAR's adoption further reinforced its character as an alignment with the dominant neoliberal political economy paradigm. In this regard, David Harvey's observations are rather instructive when he notes that neoliberalism seeks to "re-establish the conditions for capital accumulation".[176] Further, it aims to create the power of new economic elites.[177] GEAR emerged against a backdrop of constrained capital accumulation which had laid the foundation for neoliberal reforms in the 1980s through the National Party's Normative Economic Model policy proposal. GEAR enjoyed significant support from both domestic and international capital. Ultimately, GEAR became a more palatable alternative for the ANC elites for whom the exigencies of power deemed the Freedom Charter's developmental vision unworkable in an increasingly globalised neoliberal global order.[178]

[172] E Maganya, "The Contemporary Development Paradigm and South African Policy Making in the 1990s: Transformation in South Africa? Policy debates in the 1990s",(Institute for African Alternatives (IFAA), 1996), 3-4
[173] Ian Van Vuuren, Varieties of Neoliberalism, 46
[174] Dale T. McKinley, "Capitalism with a Black Face: BEE and the ANC", (Presentation to ILRIG Conference on: "SA Today: How do we characterise the Social Formation'? Cape Town -29 April 2011)
[175] Ben Fine and Zavareh Rustomjee, The Political Economy of South Africa, 71
[176] David Harvey, A Brief History of Neoliberalism, 19
[177] David Harvey, A Brief History of Neoliberalism, 31-34
[178] E Maganya, The Contemporary Development Paradigm,

The ANC recognised that it would have to begin conversing with the erstwhile business sector which could not be ignored given the recognition of the locus of real economic power. In this regard Thabo Mbeki called for an abandonment of the wish for the total defeat of and suppression of the class forces responsible for apartheid". Instead, he called for the need for "a dialectical relationship with private capital as a social partner for development and social progress". [179] At this point, the priority for the ANC lay more with winning over the confidence of the business establishment than fulfilling the demands and needs of its constituency.[180]

With regard to the role of elites in the adoption of GEAR, Habib correctly argues that "the balance of power in both the global and national arenas was unfavourable to poor and marginalised citizens, and as a result, state elites were conditioned to make the choices that they did".[181] Whilst this may have been the case, this explanation does not go far enough and runs the risk of rendering state elites as uncritical actors who can subsequently end up being absolved from the consequences their actions. It also overlooks the fact that GEAR emerged as a deliberate policy outcome crafted by policy actors who were all too aware of and reconciled to their macroeconomic policy actions. This is underscored by the then Mbeki administration policy chief, Joel Netshitenzhe, who stated that "GEAR was a structural adjustment policy, self-imposed, to stabilise the macroeconomic situation, to deal with the realities of an unmanageable budget deficit, high interest rates and weak local and foreign investor confidence". [182] The role of elite action cannot be downplayed or overlooked when considering the adoption of GEAR. It proved to be amongst the key drivers of GEAR's ultimate endorsement.

CONCLUSION:

The aim of this chapter was to illustrate how the ANC effectively deviated from its historical vision for a transformed post-apartheid political economy, as embodied by the Freedom Charter. The ANC had predicated its goals for transforming democratic South Africa on a developmental political economy premise, which envisaged that the State would be a primary actor in presiding over a primarily redistributive macroeconomic regime, which would then in turn facilitate economic growth. What occurred instead was a convergence with neoliberalism and the cementing of the ideas of the free market as a primary means through which South Africa's first democratically elected government would pursue its post-apartheid transformation goals, as reflected by the adoption of GEAR. The adoption of GEAR occurred in spite of a significant challenge from the ANC, allies who had presented the proposals made by MERG and the RDP base document as a counterweight to the neoliberal proposals made by GEAR; and preferred by the domestic and international business elite. Further, the adoption of GEAR demonstrated the strength of established capitalist interest

[179] Thabo Mbeki quoted in, Adam Habib, South Africa's Suspended Revolution,83.

[180]Adam Habib, South Africa's Suspended Revolution,

[181]Adam Habib, South Africa's Suspended Revolution, 83.

[182] William M. Gumede, Thabo Mbeki, 88.

in South Africa, which was able to consolidate its interests in a democratic South Africa at the expense of the ANC's historical developmental vision, as well as secure a convergence with new capitalist elites. Most importantly, the adoption of GEAR occurred because of conscious and deliberate policy action by elite actors inside and outside of the ANC, who had come to accept that the markets would be the vehicle through which transformation would be pursued.

CHAPTER FIVE

GEAR IN ACTION: CONSEQUENCES FOR SOUTH AFRICA'S POLITICAL ECONOMY OF TRANSITION

INTRODUCTION:

The adoption of GEAR proved to be a key historical moment in the ANC led government's post-apartheid economic thinking and thus set the tone for how the South African Post-apartheid state would arrange its economic policy orientation. GEAR's adoption was the moment which outwardly symbolised democratic South Africa's economic policy convergence with neoliberal thinking. Its assumptions would prove to be resilient in South Africa's democratic dispensation as market led growth economic strategies would be entrenched.

Thus far, under the chosen economic trajectory South Africa continues to battle with chronic rising poverty, unemployment and inequality, albeit whilst having demonstrated a few gains. Therefore this chapter aims to critically take stock of economic performance and planning in South Africa after apartheid, beginning with an assessment of GEAR. It will focus on some of the key features of the post-apartheid South African economy which emerged as a consequence of the GEAR strategy. It will argue that GEAR defined the parameters within which economic policy would unfold in post-apartheid South Africa; this has seen predominantly market led neoliberal reforms through a set of various macroeconomic policy interventions. The post-apartheid economy has hitherto been characterised by mixed fortunes coupled with persistent poverty, unemployment and inequality.

This Chapter is divided into five sections; the first section outlines the shortcomings of the GEAR strategy. Despite limited gains, the GEAR strategy fell short of most of its targets and consequently did not yield the levels of growth and inclusive economic participation it had predicted. The key argument made in this section is that GEAR subordinated economic policy to free market priorities. This is important to note as it underscores how post-apartheid South African economic policy affirmed the free market neoliberal reform agenda, which had been set in motion by international elite actors.

In the second section the study illustrates the continuation of the assumptions made by GEAR through new sets of macroeconomic policy interventions. This is important because despite the recognition of GEAR's short comings by the ANC government, the introduction of new economic policy frameworks do not lead to a fundamental rupture in economic policy orientation. The key argument made in this section is that new policy frameworks continued to prioritise market led neoliberal reforms which have reinforced socio economic imbalances in post-apartheid South Africa.

The third section describes the role of the post-apartheid South African State in affirming neoliberal reforms, contrary to expectations that under neoliberalism state intervention is at a minimum. It is critically illustrated that the South African post-apartheid state has been primarily concerned with controlling costs and less with acting as a developmental engine. Therefore I argue that, the relationship between the post-apartheid South African state and the market is one that has been mutually reinforcing.

In the fourth section, I analyse one of the primary tools which were established as a means to drive the GEAR strategy, in Black Economic Empowerment (BEE). Instead of broadening black economic participation, BEE served a politically connected black minority. Therefore, I argue that BEE consolidated the convergence between old and new elites in post-apartheid South Africa, consequently stunting the broad based transformation agenda.

The last section illustrates the constraints on transformation in post-apartheid South Africa. On this basis it argues that the inability of the state to deliver services to the vulnerable section of the population has resulted in an erosion of confidence in the democratic state. This has culminated in high instances of violence as a means to register civic discontent, which has seen a concomitant retaliation with violence by the State. It remains to be seen as to whether or not the National Development Plan will charter an alternative developmental economic path for post-apartheid South Africa.

GEAR FAILURE AND COMMITMENT TO MACROECONOMIC ORTHODOXY:

Having inherited a brittle political-economy, the ANC led government's introduction of GEAR brought about much needed stability to South Africa's post-1994 political-economic outlook which resulted in prudent financial management by the post-apartheid South African state, this has been one of the key benefits of GEAR. In its twenty year democratic history the South African political economy has managed to register key gains, according to the Goldman Sachs "Two Decades of Freedom" report:

> "Macro fiscal and monetary balances have improved, Government debt costs have trended lower and foreign reserves have risen, over cost of capital has declined, corporate valuations have improved relative to peers, real asset ZAR returns have compared favourably, China and Africa trade rise has offset European trade decline, disposable income of South Africans has risen, the rise of the black middle class has led to a structural boost in spending, wage inflation and government grants have supported this trend and per unit labour productivity has improved".[183]

However, the South African economy would need much more than macroeconomic and fiscal rectitude in order to deliver on the government's transformation vision. At its launch GEAR had promised a 6% economic growth rate and the creation of 400 000 jobs per annum.[184] However, by 2001, five years since its inception, GEAR had only managed a 2.7% economic growth rate whilst employment shrank by 3%, resulting in a loss of one million

[183] Goldman Sachs, "Two Decades of Freedom: What South Africa is doing with it and what now needs to be done, (November 2013), 8
[184] Growth Employment and Redistribution: A Macroeconomic Strategy,

jobs. The same period saw a reduction in welfare and health spending, resulting in increased instances of marginalisation and social decline.[185] In this instance, welfare spending decreased from 9.6% of the total budget in the 1998/1999 financial cycle to 9.3% in the 2000/2001 financial cycle, whilst health spending saw a decrease from 12. 2% to 11.7%. The job losses occurred as a result of the introduction of labour saving technologies; which resulted in an increase in the practice of outsourcing and the market-led turn towards labour casualization and contract labour. Real government investment grew by a paltry 1.8% instead of the 7.1% growth rate which was anticipated, GEAR's implementation also saw a sharp decrease in real private sector investment, which fell from 6.1% in 1996 to 0.7% in 1998.[186] The table below illustrates the performance of GEAR:

Table 3.1: GEAR Prediction versus Actual Performance[187]

Annual Growth Rates	1996	1997	1998	1999
Real GDP:				
GEAR Prediction	3.5	2.9	3.8	4.9
Actual Performance	4.2	2.5	0.6	1.2
Private investment:				
GEAR Prediction	9.3	9.1	9.3	13.9
Actual Performance	6.1	4.7	-2.9	-4.4
Real wage growth (Private):				
GEAR Prediction	-0.5	1.0	1.0	1.0
Actual Performance	1.7	2.3	8.6	3.0
Employment (non-agricultural):				
GEAR Prediction	1.3	3.0	2.7	3.5
Actual performance	-0.7	-1.7	-3.7	-3.2
Conventional				

[185] Ian Van Vuuren. Varieties of Neoliberalism, 56-57
[186] Wessel Visser, Shifting RDP into GEAR, 11
[187] Niccoli Nattrass, Jeremy Seekings, quoted in Ian Van Vuuren, Varieties of Neoliberalism

deficit/GDP: GEAR Prediction Actual Performance	 -5.1 -4.9	 -4.0 -4.6	 -3.5 -3.5	 -3.0 -2.6

GEAR's firm commitment to economic orthodoxy had devastating consequences which resulted in severe constraints where the redistribution of income was concerned. Since GEAR set no redistributive targets. Those who were continuously afflicted by unemployment, growing inequality, social decline and a contagious disease burden, had no recourse to their worsening social plight.[188] Further adverse consequences attributable to the introduction of GEAR were observable in the rate at which the South African economy was liberalised and integrated into the global economy as well as the extent which-what were considered-non-core state assets were sold privately. For example, the World Trade Organisation (WTO) only expected South Africa to lower its tariffs over a period of 12 years for its textile and motor industry. Through the GEAR framework the South African government committed itself to lowering the said tariffs in only eight years. With respect to privatisation, then Minister of Public Enterprises Jeff Radebe publicly committed to completing the government's privatisation programme by the year 2004.[189]

The impact of the rate and extent to which the economy was liberalised, was that it brought about the acceptance that the markets would play a dominant role in setting prices and the allocation of finance. Further, it saw the increased free flow of capital across the border and permitted the exchange rate of the rand to be set in global currency markets. The surge in capital flows culminated in high rates of capital flight, money leaving the South African economy. As a result macroeconomic and financial instability set in which weakened the economy of overtime. Further, it did not lead to economic activity that would ensure economic growth in the long term, instead it led to increased imports, growth in private sector consumption and more money leaving the South African economy. The overall ramification has been the hindrance of the government's ability to tackle rising unemployment and levels of inequality and increase economic development activity. [190] The extent and rate of liberalisation undertaken also saw some of the largest South African companies moving their primary listings to overseas. This subsequently resulted in an

[188] Ian Van Vuuren, Varieties of Neoliberalism,
[189] Thembinkosi L. Lehloesa, South Africa's Growth Economic And Redistribution Strategy, 74
[190] Seeraj Mohammed, "The impact of Capital flows on the South African economic growth path since the end of apartheid",
http://www.augurproject.eu/IMG/pdf/The_impact_of_capital_flows_on_the_South_African_economic_growth_path_since_the_end_of_apartheid_LH_ed_WP2.pdf

upward spike in mergers and acquisition activity in the economy, which did not necessarily improve the productive capacity of the South African economy.[191]

POLICY CONTINUITY AND IMPACT: ASGISA AND THE NEW GROWTH PATH

By the early 2000s, it had dawned on the Architects of GEAR that GEAR was not living up to expectations, thus prompting a slight shift in thinking and approach. Then President Thabo Mbeki began articulating the idea of developmental state which would seek to bring about a more interventionist state and constrain the influence of the markets. However, despite this realisation the Mbeki administration vacillated, being critical of the markets yet reinforcing them in their policy action, a trait that some observers described as 'talking left and walking right'.[192]

In lamenting the status quo Thabo Mbeki noted what he termed the existence of 'two nations' with distinct economies within the geographic boundary of South Africa. In this regard Mbeki stated that:

> "We therefore make bold to say that South Africa is a country of two nations. One of these is white, relatively prosperous…it has ready access to a developed economic, physical, educational, communication and other infrastructure…The second and larger nation of South Africa is poor, with the worst affected being women in the rural areas, the black rural population in general and the disabled. This nation lives under conditions of a grossly underdeveloped economic, physical, communication and other infrastructure…"[193]

Mbeki had accurately recognised that the persisting political economic malaise afflicted the majority of the population, who were historically marginalised by centuries of colonialism and later decades of apartheid. However, his administration's insisted on macroeconomic orthodoxy. The challenges of employment creation, growing inequality, poverty and slow economic growth targets averaging only 3% in the first decade of democracy, prompted a policy shift. In 2005 the Mbeki administration introduced the Accelerated Shared Growth Initiative (ASGISA).

ASGISA attempted to set the South African economy on a path that would see poverty and halved by the year 2014. In September 2005 the unemployment rate remained considerably high at a rate of 25%. ASGISA set itself a two phased growth rate target that would see and annual growth rate of 4.5% between 2005 and 2009 and a 6% GDP growth rate between 2010 and 2014. Through ASGISA it was hoped that the facilitation of such growth rates

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[191] Seeraj Mohamed, "The effect of a mainstream approach to economic and corporate governance on development in South Africa", in O Edigeji, "Constructing a democratic developmental state in South Africa, potentials and challenges", (2010 HSRC PRESS).

[192] Ian Van Vuuren, Varieties of Neoliberalism,

[193] Thabo Mbeki, Statement of the Deputy President Thabo Mbeki at the Opening of the Debate in the National Assembly, on "Reconciliation and National building", (delivered at the National Assembly Cape Town, 29 May 1998), accessed January 10,2015, http://www.dfa.gov.za/docs/speeches/1998/mbek0529.htm

would result in the creation of more jobs.[194] In an attempt to remedy the failures of GEAR the government sought to play a more active role in the economy, it would seek to do so through a vigorous infrastructure development programme. Through the ASGISA framework, government would increase public sector investment. The Medium Term Budget Policy Statement of October 2005 announced that "government and public enterprise expenditure for the period April 2005 and March 2008 is planned to be about R370 billion".[195] In this regard, the Extended Public Works Programme (EPWP) would be amongst a key set of interventions that would see "about 100 000 additional people in Jobs averaging six months in roads building and training".[196] In its macroeconomic proposition ASGISA reaffirmed a commitment to an inflation targeting regime, through which it aimed to realise the growth levels it projected for the economy. This commitment to inflation targeting mirrored what GEAR had sought to do previously to achieve the growth levels that it had projected.

In 2009 the Economic Development Department (EDD) tabled a new macroeconomic framework in the New Growth Path (NGP). The rationale behind New Growth Path was to review the extent of unemployment and inequality, thus seeking to create employment opportunities and to overcome inequality and exclusion. Further, the New Growth Path accurately identified some of the key challenges of the GEAR era namely: that of jobless growth, which saw an overall economic growth rate between 1994 and 2008 of 4% (the same as other middle income countries) yield no returns in terms of employment creation, deep seated inequality with 40% of the country's wealth concentrated in the hands of 10% of the population. This had consolidated South Africa's status as the most unequal country in the world. The share of wages in the national income dropped from 50% in 1994 to just over 45% in 2009. Another disconcerting challenge was that of young people between the ages of 16 and 30 whose rate of unemployment registered at a staggering 40% in the first quarter of 2010.[197]

Despite the recognition of these challenges the macroeconomic proposal tabled by the New Growth Path did not deviate much from those of GEAR. In this regard, the NGP proposed that:

> "the macroeconomic section of the package entails a careful balancing of more active monetary policy interventions to achieve growth and jobs targets, *inter alia* through a more competitive exchange rate and a lower cost of capital, with a more restrained fiscal stance and a reprioritisation of public spending to ensure

[194] "Accelerated and Shared Growth Initiative- South Africa: A Summary", accessed January 10, 2015, http://www.thepresidency.gov.za/electronicreport/downloads/volume_4/business_case_viability/BC1_Research_Material/asgisa.pdf
[195] Accelerated and Shared Growth Initiative-South Africa, 6
[196] Accelerated and Shared Growth Initiative-South Africa,
[197] "The New Growth Path: The Framework", 2009, accessed January 10, 2015, http://www.gov.za/sites/www.gov.za/files/NGP%20Framework%20for%20public%20release%20FINAL_1.pdf

> sustainability over time…In terms of the macroeconomic stance, for the foreseeable future the government will be guided by a loser monetary policy and a more restrictive fiscal policy backed by microeconomic measures to contain inflationary pressures and enhance competitiveness."[198]

The package proposed by the NGP entailed the following:

> "1. The monetary policy stance will continue to target low and stable inflation but will do more to support a more competitive exchange rate and reduced investment costs through lower real interest rates…2. Additional and larger purchases of foreign currency flowing into South Africa, as a result of foreign direct investment and portfolio inflows in order to counter appreciation of the rand as required…3. Greater restraint in fiscal policy to slow inflation despite easier monetary policy; A counter cyclical fiscal stance through the business cycle will manage demand in support of a more competitive currency while achieving critical public spending goals…4. Mobilisation of resources to finance growth path priorities, particularly jobs, skills and infrastructure; The new fiscal policy will require vigorous prioritisation and improved value for money, with reductions in less important areas while protecting priority public services."[199]

Inflation targeting, the prioritisation of foreign direct investment a restrictive fiscal stance and the curbing public spending proposed by the NGP's macroeconomic package demonstrated a continuity from GEAR, despite having suggested otherwise.

Amongst the notable areas which best depict the worsening plight of South Africa's majority after apartheid is the labour market. The post-apartheid labour market has managed to reproduce and further entrench unequal power relations between labour and capital. This is demonstrated by increasing employer power, despite media reports to the contrary, which depict the post 1994 South African labour market as one which is predominantly rigid and in which workers are overprotected, overly unionised and poorly skilled, a depiction which affirms the neoliberal perspective.[200]

South Africa's official unemployment rate figure as at 2013 hovers at a high 25% rate, there has been much debate around why the unemployment figure has remained so high. The neoclassical orthodox explanation suggests that it is as a result of "the simultaneous existence of a skilled labour shortage and unskilled labour surplus"[201]. This argument seeks to suggest that skills development would be necessary in reducing unemployment, however, this argument has been deemed to be flawed by the suggestion that "even if more jobs

[198] The New Growth Path: The Framework, 15
[199] The New Growth Path: The Framework, 16
[200] M Di Paola and N Pons-Vignon, "Labour Market Restructuring in South Africa: Low wages, High insecurity",(Review of African Political Economy, Vol 40, Issue 138, 2013), http://dx.doi.org/10.1080/03056244.2013.858432
[201] Bohrat 2004 quoted in M Di Paola & N Pons-Vignon, Labour Market Restructuring in South Africa, 629

were created for skilled than unskilled people, it does not follow that increasing skill levels would in turn generate jobs".[202] Further, this argument misses the point about the unemployment crisis in South Africa in that it is fundamentally structural.

In this regard three main reasons can be identified for South Africa's unemployment crisis namely: Historically South Africa has experienced high unemployment, a sluggish growth rate and a declining labour intensity growth. The macroeconomic frameworks in place from GEAR, ASGISA right through to the New Growth Path have been unable to alter the South African economy's dependence on the Minerals and Energy Complex (MEC). This has meant that the economy remains capital, rather than labour intensive with minimal capacity to absorb labour, even in instances of growth.

The jobs that have been created have increasingly deteriorated in quality, with more casualised forms of employment becoming more common place in the labour market. Consequently, this has resulted in significant wage level deterioration, as workers are left vulnerable and exposed to the mechanism of sectoral determination which reinforces low wages.[203] This has also reproduced the functional inequality between labour and capital and has seen it increase steadily; consequently the wage share of GDP has fallen from 50.1% in 1995 to 44.5% in 2010. This has further entrenched South Africa's status as the most unequal country in the world, which saw the Gini coefficient rise from 0.56 in 1995 to 0.63 in 2009, surpassing that of Brazil.[204]

THE ROLE OF THE DEMOCRATIC STATE AND A DEEPENING NEOLIBERALISM

The post 94 South African variant of neoliberalism is particularly interesting to observe, where typically neoliberalism would result in the retreat of the state, this has not been the case in the South African context. Quite to the contrary the post 1994 South African neoliberal state has been what could be considered to be a strong state. In this regard its strength has been applied towards entrenching the political economy of neoliberalism.[205] South Africa's 'unique' form of neoliberalism underscores the reality that:

> "Arguing that South Africa represents a case of deepening neoliberalism does not imply that all of its characteristics must be deduced from an initial blueprint; on the contrary, what is interesting is to analyse the particular form, contradictions and adaptations of neoliberalism in South Africa…"[206]

[202] Makgetla and Van Meelis, 2003 quoted in M Di Paola M & N Pons-Vignon, Labour Market Restructuring in South Africa, 629.
[203] M Di Paola and N Pons-Vignon, Labour Market Restructuring In South Africa,
[204] M Di Paola and N Pons-Vignon, Labour Market Restructuring In South Africa
[205] A Segatti and N Pons Vignon, "The Art of Neoliberalism: Accumulation, institutional change and social order since the end of apartheid" (Review of African Political economy,40:138,DOI: 10.1080/03056244.2013.859449), 507-518
[206] A Segatti and N Pons Vignon, The Art of Neoliberalism: Accumulation, institutional change and social order since the end of apartheid, 509

It is within this context that this research seeks to make the case for the social, economic and political reforms in democratic South Africa which it deems are characterised by neoliberalism. This is to suggest that rather than being antagonistic, the relation between the democratic South African State and the market has been one that is mutually reinforcing.

One of the most notable areas in which the South African State has demonstrated formidable capacity is within the National Treasury (NT). The restructuring of the state under the guise of the notion of New Public Management (NPM) in the transition to democracy resulted in a National Treasury being the locus for the state's macroeconomic orthodox policies. This was supported by an institutional architecture which included the South African Revenue Services (SARS), The Presidency as well the positioning of the South African Reserve Bank (SARB) outside of the purview of political oversight.

What had initially begun as a means to stabilise the political economy from the decline inherited from the Apartheid state, culminated in the consolidation of orthodox economic interventions and the enabling of a comprehensive control over government activities by the National Treasury. This occurred in line with the priorities of fiscal restraint. Rather than a developmental engine the democratic South African state became one whose primary concern was controlling costs, a phenomenon which Segatti and Pons-Vignon describe as 'technocratic capture'.[207]

Over the two decades of democracy this narrow neoliberal approach has served to consolidate the strength of big conglomerates within the context of the Minerals and Energy Complex, which has served as the core of capitalist development in South Africa. Under the continued dominance of the Mineral and Energy Complex, patterns of accumulation have followed the global trend of increased financialisation. This has led to high rates of capital flight due to the relaxation of exchange controls required by the convergence with macroeconomic orthodoxy. Increased financialisation has served as the bedrock of MEC centred accumulation and consequently has further reinforced the instances of unemployment and inequality within a context of a large and profitable financial sector.[208]

Another key consequence of the neoliberal character of democratic South Africa has been the reductionist approach towards tackling the poverty crisis. Within the neoliberal logic, poverty is deemed to be indicative of poverty being the result of lack i.e. people are poor because they lack something. What this conception of poverty misses is the structural nature of poverty and how the macroeconomic context and processes can constrain the

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[207] A Segatti and N Pons Vignon, "Stuck in stabilisation? South Africa's post-apartheid macro-economic policy between ideological conversion and technocratic capture", (Review of African Political Economy, 40:138, DOI: 10.1080/03056244.2013.858430), 537-555.
[208] A Segatti and Pons Vignon N, "The Art of Neoliberalism": Accumulation, institutional change and social order since the end of apartheid. Review of African Political economy, 40:138, 507-518, DOI: 10.1080/03056244.2013.859449

prospects of poor people in terms of access to job opportunities and infrastructure. Attempts at poverty alleviation have occurred through large spending on social programmes in the form of interventions such as conditional cash transfers and housing. However, these attempts have taken place within a restricted fiscal context and a context which has prioritised private provision of services to the poor, consequently this has not done much in terms of reducing inequality.[209] According to the Goldman Sachs report "Two decades of Democracy", 85% of the black African demographic remains poverty stricken, whilst 87% of their white counterparts are in the middle to upper classes. Fifteen million South Africans continue to live below the absolute poverty line of two dollars per day.[210]

TRANSFORMATION & CLASS CONSOLIDATION: BLACK ECONOMIC EMPOWERMENT (BEE)

With a continuously ailing economic outlook, the ANC government sought to find avenues which it believed would drive the GEAR strategy and even out the crippling racialised economic inequality by including the previously excluded black majority in mainstream economic participation. A tool identified towards this end emerged in the conception of Black Economic Empowerment (BEE). [211]

At its initial stages under the Mandela administration, BEE activity undertook to purchase equity in established target companies, utilising Special Purpose Vehicles (SPV's), which utilised shares as collateral against the loans which had been obtained.[212] Despite initial financial structuring difficulties experienced by the early phases of BEE[213], BEE saw the incorporation of a small number of prominent black politically connected business leaders into the highest echelons of the economic elite. BEE would rely on corporate social responsibility through the adoption of voluntary codes, charters and other agreements.[214]

This translated into the slow transformation towards black business ownership which was even noted by the government itself. As a response to this slow transformation, the Mbeki led government decided to adopt Broad Based Black Economic Empowerment which would aim to expand and thus improve black business participation. However, this has, as Klug illustrates: "primarily served as a key driver of corporate merger and acquisition activity, which, according to a Moody's rating agency report, accounted for R200-billion worth of business transactions."[215] The effects of such boardroom success have not translated in to economic inclusivity of the majority, as BEE remains the subject of much criticism and ire.

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[209] A Segatti and Pons Vignon N, The Art of Neoliberalism,

[210] Goldman Sachs, Two Decades of Freedom, 24-30.

[211] "South Africa's Economic Transformation: A strategy for Broad-Based Black Economic Empowerment", 12.

[212] Anthony Butler: Black Economic Empowerment Since 1994:Diverse hopes and differentially fulfilled aspirations, http://www.yale.edu/macmillan/apartheid/butlerp2.pdf

[213] H Klug, The Constitution of South Africa a Contextual Analysis, (Hart publishing, Oxford-Portland-Oregon 2010), General editors Peter Leyland and Andrew Harding; Associate editors, Benjamin Berger and Alexander Fischer (Constitutional Systems of the World).

[214] H Klug, The Constitution of South Africa a Contextual Analysis, 290

[215] H Klug, The Constitution of South Africa a Contextual Analysis,

Many scholars and observers have remained critical about the BEE project. In this regard, McKinley observes that the Thabo Mbeki administration has assumed that the black bourgeoisie "will be more patriotic and will, in turn positively affect white capital to be the same, not only in relation to internal productive 'investment' but also in direct relation to the position of workers and the poor, ('we are one mantra')".[216] This simply did not materialise.

South African author, businessman and political commentator Moeletsi Mbeki decries BEE as an elite pact as which was aimed at maintaining the status quo of inequality and not really a means to ensure majority black participation in mainstream economic activity in South Africa. In this regard, Mbeki argues that:

> "The conglomerates took their marginal assets, and gave them to politically influential black people, with the purpose in my view, not to transform the economy but to create a black political class that is in alliance with the conglomerates and therefore wants to maintain the status quo of our economy and the way in which it operates".[217]

What seems to have been identified as a crucial vehicle, to drive the vision encompassed by GEAR, ASGISA and the NGP has not delivered the desired results. The implementation of Black Economic Empowerment policies has been plagued by difficulties. Further, the overall impact remains quite limited.[218]

SOCIAL DECLINE AND THE NDP

Increased instances of violent crime and social unrest have become a common feature of the democratic South African landscape. The inability of the democratic State to deliver services to the vulnerable sectors of the population in South Africa has culminated in a loss of confidence, in engagement through democratic processes by those affected. Therefore the increasing instances of violent protest and general unrest are emblematic of this erosion of confidence in the democratic state.[219]

Democratic South Africa is reported to have 300 incidents of protest action per year, and increasingly this protest action has assumed a violent nature, violence both by the protesters and increasingly the state.[220] To this end Ebrahim Fakir -a prominent political

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[216] Dale T. McKinley, "Capitalism with a Black Face: BEE and the ANC", (Presentation to ILRIG Conference on: "SA Today: How do we characterise the Social Formation'? Cape Town -29 April 2011)

[217] Moeletsi Mbeki , "Wealth Creation: Only a matter of time before the hand grenade explodes" Business Day, October 28 2012, http://www.businessday.co.za/articles/content.aspx?id=133902

[218] R Dunnigan , "F Fazaeli, J Spies, Black Economic Empowerment-difficulties and opportunities in making right the wrongs of the past", http://faculty-course.insead.edu/dutt/emdc/projects/Sep-Oct05/Group_D.pdf

[219] Thiven Reddy, "ANC Decline, Social Mobilisation and Political Society: Understanding South Africa's Evolving Political Culture", "Politkon, December 2010, 37,2-3), 185-206.

[220] Ebrahim Fakir, "Protests are a cry for political recognition". Mail & Guardian, August 29, 2014, http://mg.co.za/article/2014-08-29-protests-are-a-cry-for-political-recognition

analyst in South Africa- suggests that “violent protest seems to be the only way in which people feel they are recognised and heard”.[221] Research conducted by the University of Johannesburg indicates that protests increased to 407 incidents in 2012; however this number dropped to 287 in 2013.

The interviews conducted by this research revealed that amongst the main reasons for protest action were the high levels of unemployment amongst young people. What were also revealed by this study were the increased instances of state violence against protesters. Between 2004 and 2014, 43 protestors were killed by police. This figure excludes the 34 miners who were killed by police on the Platinum belt in Marikana in 2012, when they resorted to protest as means to highlight their precarious working conditions.[222]

In November 2011 the ANC led government, under the leadership of Jacob Zuma revealed its blue print through which it would attempt to address the country’s persisting challenges. The National Development Plan (NDP) was released and it would also encompass the democratic state’s vision until 2030. Like its predecessors, the NDP adequately identifies the challenges afflicting the post-1994 political economy namely: sluggish growth, increasing unemployment, inequality, poverty and social unrest in South Africa.

Whilst evaluating the performance of the NDP would be somewhat of a premature endeavour. Given its fairly recent release and long-term projections, its broad pronouncements do not bode well for the prospects of chartering an alternative and developmental economic path. In this regard, the NDP reaffirms a commitment to the New Growth Path “with regard to current government policies and programmes, the New Growth Path is government’s key programme to take the country onto a higher growth trajectory”.[223] The NDP seems to hinges its vision on the same neoliberal macroeconomic orthodox orientation that is premised on a limited or restrictive fiscal stance which informs the NGP as highlighted earlier in this research. This research draws the conclusion that there has been no conclusive deviation from the macroeconomic path chartered by GEAR; therefore, it remains to be seen as to whether or not the NDP will successfully address the persisting challenges of poverty, unemployment and inequality.

CONCLUSION:

This chapter has attempted to illustrate the neoliberal instance which has characterised the post-94 democratic South African political economy, as well as its consequences in terms of addressing the country’s persistent challenges of poverty, unemployment and inequality. Despite registering key gains, GEAR failed to deliver its projected economic growth rate; consequently it failed to address poverty, unemployment and inequality which demonstrated an increase under GEAR. Under GEAR the South African economy also

[221] Ebrahim Fakir, Protests are a cry for political recognition.
[222] L Grant, “Research Shows Sharp in service delivery protests”, February 12 2014, Mail and Guardian http://mg.co.za/article/2014-02-12-research-shows-sharp-increase-in-service-delivery-protests
[223] National Planning Commission,“National Development Plan”, Vision 2030, 11 November 2011), 92.

experienced rapid and aggressive liberalisation which exposed it to the external shocks of the global capital markets, massive capital flight due to the relaxation of exchange controls and rapid privatisation.

Recognising the political economic malaise the South African government championed what it deemed as alternative macroeconomic frameworks in ASGISA and the New Growth Path respectively, in an attempt to arrest the economic decline. However, these new frameworks did not deviate conclusively from their GEAR predecessors and only sought to reproduce and reinforce the instances of unemployment and imbalance between labour and capital while poverty and inequality continued to rise. These new frameworks relied on the same restrictive orthodox macroeconomic principles as GEAR which was premised on fiscal prudence and inflation targeting to maintain stability, whilst this was necessary it proved insufficient.

Contrary to neoclassical interpretations of the role of the state under neoliberalism the democratic South African State proved to be strong and efficient agent in consolidating neoliberalism despite extensive social spending in direct cash transfers and in housing, this spending framework was pursued within the strict confines of fiscal restraint. The plight of the majority who had been historically marginalised by Apartheid's laws of racial continued to worsen, bringing about a rise in protest action and instances of public violence, signalling the erosion in the confidence of the democratic state to deliver. The State's response to this became heavy handed as instances of police violence on citizens grew and reached their zenith on the platinum belt in 2012 where 34 miners were shot and killed by police.

In November 2011 the government released its blue print long-term vision for democratic South Africa in the NDP. Whilst the performance of the NDP remains to be seen, it's affirmation of the New Growth Path as one of its key drivers is disconcerting as this is indicative of a continuation of the same macroeconomic orthodox practices. It is against this backdrop which this research concludes that it is unlikely that the NDP will successfully reverse the challenges of poverty, unemployment and inequality and enable the South African economy to achieve the requisite growth rate.

CHAPTER SIX:

CONCLUSION

The conclusion will offer a final analysis of what has been argued throughout this study. It has been this study's contention that Post-Apartheid South Africa's economic planning and performance has been influenced by neoliberalism. In this regard the focus of this study was aimed at critically assessing the adoption of the Growth Employment And Redistribution (GEAR) macroeconomic strategy by the ANC led government. Therefore it has been argued that the adoption of GEAR was a key defining moment in democratic South Africa's economic trajectory. Thus, the adoption of GEAR signified and solidified democratic South Africa's alignment with the dominant global neoliberal paradigm which had come to characterise the post-cold war global political economy. Moreover, the decision to adopt the GEAR strategy was a deliberate one by the elite decision makers in the ANC led government. This is particularly crucial to note when one considers that the ANC's historical vision for an economically transformed democratic South Africa differed considerably from the proposals and assumptions made by the GEAR strategy. The ANC's historical vision premised on the ideals of the freedom charter, envisaged that growth would be pursued primarily through redistribution and this would be an initiative championed by the democratic state. This vision was summarily abandoned as democratic South African economic planning assumed an ostensibly neoliberal trajectory.

In the first chapter, the study sought to outline the conceptual premises of neoliberal thinking and practice. It is argued in this chapter that neoliberalism derives its conceptual assumptions from classical liberal theory, which holds to orthodox economic assumptions propagated by classical scholars such as Adam Smith. The orthodox economic view advances the idea that economic interactions are best maximised when they are unencumbered; and this is realised in the context of a free market. The chapter highlights the uncritical acceptance of the ideas of the free market and illustrates the limitations of the free market and suggests that the free market in actual fact does not exist. Economic interactions are bound by and governed by rules and these are adhered to or resisted subjectively. Further, the pursuit of a free market is incompatible with the complexities of the social realities which characterise human life which cannot be separated from and subordinated to purist notions of the economy.

The second chapter proceeds to trace the political and historical emergence of neoliberalism, this is done through a historical description of how neoliberalism emerged as the dominant post -cold war political economic paradigm. It also contextualises South Africa's experience of neoliberalism by tracing the emergence of neoliberal discourse in the South African context and giving backing background to South Africa's democratic transition. Neoliberalism supplanted what was known as the "Golden age of social democratic capitalism" or embedded liberalism; this period saw unprecedented levels of capital accumulation, economic growth and high living standards.

This affirmed the notion that development and stability were most desired with the assurance of the state sponsorship, which sought to ensure the realisation of full employment, growth and the general welfare of citizens. Following a capital crisis in the mid to late 1970s the capitalist system was afflicted by slow growth and high inflation, a phenomenon otherwise known as stagflation thus resulting in a crisis for capital accumulation. In a bid to restore the fortunes of capital key historical proponents of neoliberalism emerged in England and America in the 1980s, in the mould of Margret Thatcher and Ronald Raegan respectively, who sought to rectify the global economic system.

Their efforts resulted in the adoption of restrictive policy measures which would prioritise the needs of private capital at the expense of development and citizen welfare. Emphasis was placed on the deregulation of markets, extensive market liberalisation, foreign direct investment and the rapid integration of the global economy. This formula registered a devastating social impact which saw the loss of jobs and declining social indicators on the one hand and the enrichment of an elite minority. It was replicated in developing market context such as Africa; guaranteed by the International Financial Institutions such as the World Banks and International Monetary Fund (IMF) and resulted high levels of poverty, inequality and unemployment. The dominance of or primacy of markets had become entrenched in the global political-economic order as it were.

This period coincided with the end of the Cold War and the ultimate collapse of communism as a contending ideological and political force, thus the global economy was subsumed by neoliberal ideas. It was against this backdrop that South Africa made its transition to democracy. What was crucial to note is that the collapse of communism meant that the ANC which would emerge as South Africa's first democratic governance had lost an ideological ally in the USSR. Hitherto, the ANC had pegged its economic ideas for transforming South African society on socialist ideas once espoused by the communist Soviet Union. Despite this reality, the economic path embarked upon by the ANC when in government would not be a given.

Neoliberal discourse in South Africa had begun in the late 1980s with the National Party government, which was responding to the capital crisis which had afflicted South Africa due to international isolation and divestment measures in protest against its racially exclusionary policies. The National Party sought to restore the fortunes of capital by proposing neoliberal measures which were largely pro-business, in its Normative Economic Model document. Therefore neoliberal discourse in a democratic South Africa would not be a new phenomenon without historical basis. This background would somewhat set the scene for South Africa's convergence with neoliberalism.

In chapter three a historical description of how the ANC ultimately embraced neoliberalism is given, this despite its historical commitment to ideas that were antithetical to neoliberal assumptions which prioritised the dominance of markets. In this regard the ANC had articulated its commitment to the ideals of the Freedom Charter which envisaged that a transformed post-apartheid South Africa would premise its economic policy orientation on the prioritisation of redistribution as a means to attain growth, thus placing emphasis on attaining the needs of the people. This would be a state led project and was spelled out more clearly in the Reconstruction and Development Programme (RDP) base document.

Upon its ascendance to government the ANC government's economic policy would be the site of vociferous contestation, drawing the attention of competing interests stemming from both domestic and international business as well as International Financial institutions such as the IMF and World Bank. These protagonists would spare no effort in persuading the ANC that pro-market neoliberal policies were the best for a democratic South Africa. Consequently the ANC was bombarded by an onslaught of advocacy and scenario planning initiatives which agitated for the adoption of a market led strategy, towards the realisation of its transformation aims. Key leaders in the ANC government who were viewed as being more amenable towards pro market policies were also targeted for persuasion by business interests.

Counter arguments and perspectives were presented by the ANC's allies in the Congress of South Africa Trade Unions (COSATU) and the South African Communist Party (SACP) which were in keeping with a more developmental economic strategy. These efforts produced the MERG document as well as the RDP base document which held to the proposals of state led redistribution as a means to achieve growth. Despite these efforts, the ANC ultimately began to embrace a market led strategy, this culminated in the adoption of the Growth Employment and Redistribution (GEAR) Strategy which was predominantly neoliberal in its orientation. The GEAR strategy emphasised fiscal discipline, the deregulation of markets, and the aggressive lifting of exchange controls which facilitated South Africa's reintegration into the global economy, a terrain which would prove unfavourable for. This reflected the strength and dominance of South Africa's business establishment against whom the ANC's resolve to pursue a more developmental orientation was severely constrained. It also reflected the willingness by key decision makers in the ANC government to accept neoliberal market led proposals as a means through which transformation could be achieved. Despite the shift to a pro market orientation economically; politically the GEAR strategy was positioned and packaged as a means towards driving the RDP programme. It is argued that the adoption of GEAR proved to be a key defining moment in post-apartheid South Africa's political economic trajectory, which has followed a neoliberal market led orientation as it is illustrated in Chapter four.

Chapter four illustrates the GEAR strategy's failure to achieve the economic goals that it had set for transformation. During the period in which GEAR was implemented, it yielded slow economic growth, registered declining social indicators which saw an increase in poverty levels, rising levels of inequality and unemployment. In recognising the failures of GEAR, the ANC government under Thabo Mbeki's leadership sought alternative economic strategies and began to champion the idea of developmental state that would be more interventionist. This resulted in a policy shift and in 2005, the Accelerated Shared Growth Initiative (ASGISA) was unveiled which sought to chart new macroeconomic policy direction. However, the ASGISA framework did not deviate from the assumptions made by GEAR which emphasised fiscal prudence in keeping with neoliberal leanings. Poverty levels remained stubbornly high, inequality and unemployment continued to demonstrate an increasing trend.

This prompted the unveiling of a new policy initiative was tabled in the of the New Growth Path (NEGP) framework in 2009. This would inform the ANC government's strategy in the stalling pursuit for transformation. The NEGP also held steadfast to the neoliberal assumptions which privileged market led growth, despite the government recognition of the shortcomings in achieving the desired economic growth results and improvement of social indicators. In this respect post-apartheid economic policy demonstrated continuity in neoliberal market led reform and thus entrenching the historical tension between the market and development. In 2010 the ANC government undertook an extensive diagnostic initiative which culminated in the appointment of the National Policy Commission which sought to craft a new way forward. In 2011 The National Development Plan was revealed, this would be a comprehensive blue print that will inform government strategy in all spheres of governance. From an economic perspective it affirmed the NEGP as a framework for achieving transformation, it remains to be seen if the NDP will yield the desired transformation results.

South Africa's brand of neoliberalism reflected unique characteristics, whereas neoliberal prescriptions dictate a minimal state whose involvement is limited to ensure fairness in the market, this was not the case in democratic South Africa. The post-apartheid South African State proved to be instrumental in deepening the economic neoliberal orientation. It established key 'super' departments in the National Treasury (NT) and South African Revenue Services (SARS) which held in place the orthodox policy orientation under the guise of the New Public Management (NPM) framework which restricted room for developmental policy proposals. In the same token the South African State presided over an extensive social welfare regime which was anchored by programmes that rolled out social grants of varying categories and public housing. This served as political means to assuage the growing frustrations from citizens.

In continued attempts to effect policy instruments that would realise that transformative agenda of the Freedom Charter and RDP, the ANC government unveiled Black Economic Empowerment (BEE). BEE would be a legislative regime that sought to create economic parity between the black majority and white minority holders of economic power, through the purchase of equity stakes for black entrepreneurs in white owned companies. The shortcomings of BEE legislation lay in that they privileged politically connected elite and didn't broaden the base for meaningful black majority economic participation. This served to consolidate the convergence between the old capitalist class and the new black capitalist class created by BEE legislation.

The aggregate result of the difficulties in achieving transformation in democratic South Africa was evidenced by continued social decline. The majority of citizens began to take to the streets in protest to demonstrate their frustrations at the government's lack of delivery to the vulnerable sections of the population. This reflected erosion in the public's confidence in the democratic state and its processes as the instances of public violence around policy issues demonstrated a dramatic increase. The adoption of GEAR in 1996 placed severe constraints on the ANC government's ability to realise its transformative freedom charter and RDP vision which envisaged a state led redistribution programme which would emphasise taking care of the needs of the people whilst achieving growth. The ANC government has pinned its strategy on the National Development Plan and has undertaken to vociferously implement the National Development Plan. Whilst the implementation of the NDP continues it seem unlikely that it will result in a policy rupture or a substantive shift deviating from the market led neoliberal economic orientation put in place by the adoption of GEAR.

At the core of this study an analysis of the reasons that the ANC unilaterally adopted the Growth Employment and Redistribution Strategy is offered. This analysis sought to draw attention to the complex and often challenging terrain of post-Cold War political economic governance in the developing world which characterise the context within in which the ANC ascended to governance. Whilst a critique of the ANC's acceptance of the propositions of neoliberal reform has been advanced, in that key ANC decision makers became willing participants in prioritising orthodox economic policies and did so somewhat zealously. It was also acknowledged that the ANC had to contend with the somewhat overwhelming strength of established domestic and international capitalist interests, as it was indicated in the third chapter.

Therefore, the suggestion being made is that additional constraints were placed on the ANC's already underdeveloped economic policy making capacity after transition which was alluded to in the thesis. As a consequence, the ANC wasn't ability to follow through on its vision to implement a political economic approach which prioritised state led redistribution to address people's basic needs as a means to facilitate growth. This was a vision derived from the Freedom Charter and subsequently the Reconstruction and Development Programme base document.

Reference was also made to suggest that a significant degree of state intervention in South Africa was more desirable. This would serve as a means to attain the economic conditions which would reverse the structural legacy of the racial exclusion of the majority of South Africans from meaningful participation in the political economy. Historically, this paradigm has been realised in the form of a developmental state, whilst it is a preferred approach, it is not without its limitations. For instance, there could be institutional constraints on state intervention where there is limited budgetary capability due to a low income tax base, in effect curtailing the state's ability to adequately finance its budget deficit. In other instances; states experience limited monetary policy capability.[224]

Asian states commonly referred to as the Newly Industrialised Countries (NICS) are also often cited as examples of the success of increased state intervention.[225] Even in this instance, it should be acknowledged that certain special dispensations were available to these states from which they benefited. These included: their strategic importance in the cold-war which resulted in economic and military aid from America as well as exemption from pressures to conform to the demands of market liberalisation.[226]

This is to emphasise the constrained and often inconsistent character of the policy making environment which characterised the post-cold war global economy, in which such dispensations no longer exist, especially for developing countries like South Africa. Ultimately, developing contexts such as South Africa might be better served by transcending the market versus state dichotomy which can be said to be ahistorical and misleading; and in so doing, find the appropriate balance between state and market intervention.[227] This may very well be a better proposition for the realisation of transformation agenda that would be measured against the eradication of poverty, unemployment and inequality, characteristics that continue to bedevil democratic South Africa's political and economic landscape.

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