

**FROM MIRACLE TO MIRAGE:
THE ANC'S ECONOMIC POLICY SHIFT
FROM *MERG* TO *GEAR***

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Abstract

The thesis explores the ANC's economic policy shifts from its initial inclination towards a Keynesian model in the form of the Macroeconomic Research Group (MERG) report to that of a free-market model in the form of Growth, Employment and Redistribution (GEAR).

It argues that the shifts which began earnestly in the 1990s may be explained through the conceiving of policy making as a process which involves different actors that compete with each other to influence state policy in the direction of their respective interests.

In order to understand and explain the ANC's economic policy shifts, the thesis utilises theories of transition and policy making. It argues that while both external and internal factors could be used to explain the shifts, in the South African case these factors manifest themselves in a more complex way than has been the case in other modern countries. This emphasis takes into account the fact that South African's transition to democracy is not only confined to democratic political process but it also involves quite sophisticated forms of structural transition in which the historically disadvantaged racial groups are attaining new social status and economic strata. It is these developments which in one way or the other, contributed to a need for the ANC to accommodate new interests groups that have not historically formed part of its traditional support base.

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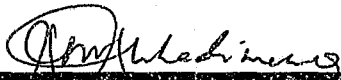
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DECLARATION

I declare that this thesis is my own unaided work. It is being submitted for the degree of Master of Arts at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other university.



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DEDICATION

This thesis is dedicated to my deceased father, Nkadameng Molakeng Ben; to his late younger brother, Nkadameng Chipane Abel and to the untimely death of my aunt Mmagotšwafe Seloane's son, Seloane Mareme Amos.

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PREFACE

CONTEXTUALISATION

In 1989 the National Party (NP) leader, Mr. F.W. De Klerk punctuated something that was unexpected in the politics of apartheid South Africa. He released the liberation movement's political prisoners, followed by the unbanning of their political organisations which were banned close to three decades, and allowed the return of exiled politicians. In what became to dominate both local and international media coverage, De Klerk confirmed his commitment to institutionalisation of reforms by releasing from prison one of the ANC's life-imprisoned leader, Mr. Nelson Mandela.

The reasons, motivations and intentions of De Klerk's decisions were, of course, subjectively read and interpreted differently by different people. While others have called him a man of integrity in contrast to his predecessor, P.W. Botha, who preferred coercive methods against anti-apartheid forces, politicians held a different explanation. They interpreted De Klerk's decisions as an inevitable response to the political demands and pressures that were mounted against the NP from home and abroad.

Moreover, one indispensable fact about the late 1980s events and the subsequent release of Mandela in February 1990 is that all these signalled the ushering in of a new epoch in South African politics. They signalled what sociologists would call the opening up of a 'political opportunity structure' in which social dialogue became the guiding norm between racist antagonists who had in the past faced each other across the barrel of a gun.

The significance of this opened opportunity structure was cemented when in November 1991, the government, the NP, the ANC, the PAC, the DP, the SACP, the Transvaal and Natal Indian Congress, two Indian political parties, one 'coloured' political party, and representatives from 10 homelands resolved to form the Convention for a Democratic South Africa (CODESA). This was the beginning of negotiations, aimed at reaching agreements on key policy matters that were to

characterise the country's transition from apartheid to democracy.

Thus, debates about which economic policies should be followed by a future democratic state have been triggered into the public domain since February 1990. This of course does not necessarily imply that February 1990 marked the beginning of an economic policy process in SA, especially those aimed at influencing policies for a post-apartheid state.

In parallel to a policy process that remained the sphere of government technocrats who were interested in legitimating the policy of apartheid in the past, the anti-apartheid forces in SA, though loosened under the category of liberation movement, had always attempted without success to influence government policy. They were, however, doing this from the position of illegality and 'unofficial opposition'. Therefore, the immediate post-1990 period could best be seen as the one in which more rigorous, focussed and organised debates for contesting economic policy options by various political organisations and other interests groups began to occupy the centre stage in South African politics.

Prior to 1990, policy proposals by the liberation movement in particular, and by the broad anti-apartheid forces in general, were often echoed as mobilisation tools rather than economic policies per se. Moreover, these statements always carried with them crucial economic policy implications. Incidents in which these has been the case can be traced back to the drafting of the Freedom Charter in 1955: an event which was to be followed by a long period of political lacuna on the side of the liberation movement up until the last half of the 1980s. At a more concrete level, this economic policy lacuna was later on first occupied by the formation of COSATU in 1985: a trade union federation which, owing its character of social movement unionism initiated a tremendous process of economic policy debate¹.

Moreover, it was not only COSATU that was seriously cogitating about economic policy options. Nor was the process itself immune from external influence. Realising that SA's future state would have to be strengthened by a thoroughly thought-out and possibly objective economic policy, other actors in the form of political organisations, particularly the ANC; from academics, business sector, and other extra-parliamentary formations began to enter the debate. From the ANC side, a climax was reached when out of two workshops held in Harare between April and May and again

in September 1990, the organisation released its draft economic policy document entitled *Discussion Document on Economic Policy*. Committed to a 'strong' role for state in the economy in a post-apartheid society, the ANC registered its concerns about the then visible free-market policies that the NP government wanted to introduce in its proposed *White Paper on Privatisation and Deregulation in the Republic of South Africa* (RSA:1987).

The ANC reasserted its inclination to the strategy of nationalisation by concluding that 'the ANC is staunchly opposed to the current government's plans to privatise the public utility corporation [and that] any public utilities which were privatised will be subject to immediate re-nationalisation' (*New Nation*, October 5-11, 1990). Amongst other free-market policies which were opposed by the ANC in the NP's *White Paper* were calls for decreasing the role of the state in the economy, stringent controls on government spending, systematic privation and deregulation (Clarke, 1994:345).

The ANC's *Discussion Document on Economic Policy* was met with criticisms, particularly from both the NP and the business sector. As Marais (1998:149) observed, attacks ranged from conservatives about the 'socialist' undertones of the document to a more sophisticated set of objectives to its alleged overtones of macroeconomic populism. The context under which the ANC released its document and the subsequent feedback it received from different groupings in SA is quite crucial.

That is, unlike in the past where responses to each other would have been at a 'distance' and sometimes even not being taken serious, the opportunity structure that was opened for social dialogue meant that the ANC had to interact with these groups in exchange for opinions and visions about the future of the country. Thus, while the main themes of the ANC's document were derived from COSATU's Economic Trends Group which took as its premise the '*growth through redistribution*' strategy, the business sector responded by a series of engagements with the ANC in contesting and indeed challenging both the political and economic viability of such strategy.

As Bond (1996) suggests, the plethora of corporate scenario planning exercises unleashed after 1990 had a significant impact on the economic policy debate in SA. Meanwhile, the South African economic policy debate also drew in some external actors. Notable of these was the IMF' and the World Bank which began to present some economic policy options for consideration by the ANC

in preparation for a post-apartheid government.

Both the business sector scenario planning, the World Bank and the IMF's input brought in a conjunctural moment in the South African liberation movement's economic policy mindset that dominated the entire period of resistance. The impact of these two actors's input was to have far-reaching consequences on the part of the ANC's post-1994 economic policies since the drafting of the Freedom Charter in 1955.

Thus, in 1991 the ANC made no mention of the strategy of nationalisation in its Draft Resolution on ANC's *Economic Policy for National Conference*. This signalled the first official economic policy shift in an organisation that had for about more than four decades committed itself to state ownership of public enterprises with an objective of addressing the legacy of racial distribution of resources.

Meanwhile, pending Mandela's visit to Canada in 1990, where he raised the issue of the urgent need for better understanding of economic policy issues in SA within the anti-apartheid movement, the Canadian Department of External Affairs approached the International Development Research Centre (IDRC) for assistance. After the IDRC launched a mission whose aim was to assess the needs of the anti-apartheid economic community in the area of economic policy analysis and formulation as it prepares for negotiation on the transition to a post-apartheid SA, the Macroeconomic Research Group (MERG) was launched in late 1991.

The author would like to make it clear from the outset that this thesis recognises the fact that the MERG report that was produced in 1993 was never an official economic policy blueprint of the ANC. Moreover, the centre-stage that has been occupied by this research group for making policy proposals to the bodies of the mass democratic movement (MDM) which do make policies makes it necessary for it to be considered as one of the initial milestone in the process of policy making in SA. Indeed, there are two broadly related reasons which contribute for one to focus on the authenticity of the MERG report.

Firstly, despite some of the problems that were experienced in the process of developing a coherent policy framework, the MERG report was widely viewed as a significant contribution to a policy

framework which challenged the NP's *Normative Economic Model* (NEM) produced by the latter in its last years of government. Secondly, by taking as its premise some of the key criticisms levelled against the NEM, MERG opened up a broad space in which a contest of the traditional position of the ANC on the one hand, and the '*growth through redistribution*' strategy as advocated by COSATU on the other hand, were to be located. This is because since the beginning of the research group's work and indeed even after its final report, subsequent economic policy proposals have been evolving around the relationship between growth and redistribution.

Thus, in contradistinction to the '*growth through redistribution*' strategy, two other strategies began to emerge. The first was '*growth now, redistribution later*'. This model has been championed by the free-marketeers, whose argument was that economic recovery and growth should precede redistribution. In fact, the NP's NEM contained central sentiments of this model.

The second model was '*growth with redistribution*', which owes much of its explanation to the debate that dominated this country in the mid-1991². This model gained ascendancy because of the increasing emergence and strength of social democracy in SA. It argues that redistribution through growth alone (i.e. without government intervention) is unlikely to succeed because redistribution of this kind will need a growth of 10-12% per annum, a situation that was unlikely to be attained in this country (Van Vuren, 1992). Rejecting redistribution through massive nationalisation, social democrats envisaged redistribution through the market combined with redistribution through state budget to provide national health and security programmes, access to good education and basic houses for all (le Roux, 1990:26;38).

Indeed, the ANC's economic policy vision in the period up until 1994 remained the one which was underpinned by a mixture of developmental and Keynesian thinking which ran against the thinking of free-market economists. However, while the ANC successfully managed to contain some of the different perspectives about various economic policy options, both within itself and in the Tripartite Alliance, the climax was however reached when the organisation was voted into power during the April 1994 elections. As a ruling party, the ANC had to transform most of its economic policy statements into an official effective government policy.

Thus, though it might be convincing as argued by Webster (1997) that the political power that the ANC gained after being elected into government cemented the Tripartite Alliance, it could also be argued that this political power also served as a lever for the ANC to drag the other partners in the alliance by their noses. This was evident when the ANC transformed the RDP into an RDP White Paper in September 1994. Indeed, the RDP White Paper was the major step forward in compromising the powerful left-Keynesian orientation that was the central guiding framework for both the MERG and the RDP. As Adelzadeh (1996:66) stresses:

'The release of the RDP White Paper in September 1994 signified the first major point of departure from the goals and ethos of the RDP document. It unsuccessfully attempted to reconcile the original Keynesian approach to the RDP with a set of policy statement and recommendations that were inspired by the neo-liberal framework that had long been the alternative offered, even in different variants, by big business, the IMF and the World Bank, and, not least, the apartheid state itself in its twilight years in the form of the Normative Economic Model'

While a state-led social and physical investment programme as the growth driver in the first phase (of MERG's proposed two phases), followed by a more sustainable growth phase which would see private sector investment kick in more forcefully as growth picked up; and the envisioned first priority beginning to meet the basic needs of people: jobs, housing, water, electricity, telecommunications, transport, a clean and healthy environment, nutrition, health care and social welfare were respectively central to 'demands' of the MERG and the RDP, the RDP White Paper transformed the role of the fiscal prudence from a means to achieve the RDP objectives to an objectives of the RDP (Adelzadeh, 1996:66-67; Mattison, 1998; Pilger, 1998).

Thus, despite the fact that the ANC staunchly criticised the NP's NEM proposals of privatisation – a criticism which served as the starting point of the MERG report, the dropping of the goal of redistribution as the main objective and the subsequent reduction of the role of the state was glorified when after his return from Germany in May 1996, President Mandela made an ironic statement that 'privatisation is the fundamental policy of the ANC and [that] it is going to be implemented (*Financial Mail*, May 1996)³.

This statement, in whatever intentions, was quite ironic because it was made in a context in which labour (COSATU/NACTU/FEDSAL) was engaged in negotiations aimed at trying to 'stop' the government's unilateral proposals of privatisation. These negotiations were taking place at an officially recognised structure in the form of the National Framework of Agreement (NFA) which was signed between labour and the government in January 1996 following the Deputy President Thabo Mbeki's announcement that the government will kickstart privatisation.

Moreover, the final blow to both the MERG and the RDP's frameworks was felt when in June 1996, the government moved further towards the right by unveiling its GEAR strategy. In both its content and form, the strategy premises from free-market approaches and the policy has been equated with the trickle-down logic advocated by both the NP's NEM, the South African business sector and by institutions like the IMF and the World Bank.

The above sketch illustrates the evolution of the ANC's economic policy thinking. Though it should be recognised that the above outlined shifts remain contested, it is however indicative that they reflect a shift of an economic policy vision from the one that was aimed at targeting the poor directly to the one that targets them indirectly. The former approach, as indicated above, could be traced back from the Freedom Charter, with some conjunctural moments of continuities – the adoption of left-Keynesian framework by MERG and the deepening of this with the developmental approaches of the RDP.

These approaches have been underpinned by the logic of *growth through redistribution*. The latter approach had gained momentum with effect from the 1990s, pending the opening of the political opportunity structure in the South African politics. An explanation of both the reasons and the factors which contributed to these shifts on the one hand, and the processes that facilitated them on the other hand, constitute different themes of this thesis.

AIM

The main aim of this thesis is to explain and explore the reasons and factors which led the ANC to shift from its initial inclination of a Keynesian model of economic policy to that of free-market economic policy. An analysis of these economic policy shifts had been done by scrutinising the contents and recommendations of the 1993 MERG report, which represented the former approach, in comparison to the current government's GEAR strategy, which represents the latter approach.

Taking as its premise the fact that the South African 'political' transition from apartheid to democracy has been smoothly attained, this thesis problematises the economic policy making process by conceptualising it as a contested site of struggle on two corresponding fronts. The first one concerns the economic policy contestations in the process of shaping the transition to a post-apartheid SA. It is in this front that both the context and factors that led to the emergence and the disappearance of the MERG report are examined.

In the second front, the thesis is concerned about the economic policy contestations in the process of consolidating democracy in a post-apartheid state. Central to this, is an examination of the complexities which featured the South African policy making process since 1994 until the adoption of the GEAR strategy in June 1996. In contextualising these factors and reasons, the following interrelated objectives had been forming the overall aim of this thesis:

1. An examination of the extent to which the context in which the MERG was formulated differs from the one which led to the unveiling of the GEAR.
2. How the process of globalisation, underpinned by the perceived hegemony of free-market policies, affect(ed) the economic policy making process in SA, especially the ANC thinking.
3. An examination of the constraints and/or opportunities brought upon by the nature of the political settlement to the economic policy process which led to the abandonment of the MERG report's recommendations.
4. Identification of different actors in the economic policy making process, together with their respective areas of interests which in one way or the other might have contributed to the shift from MERG to GEAR.

RATIONALE

Debates about which economic policies should be followed by the future democratic state have attracted the attention of different interest groups in SA as genuine prospects of a new dispensation became a possible reality. Led by individual academics, intellectual researchers and other research institutions, these debates were highlighting the limited space and opportunities in which the future state could possibly embark on a 'wholesale' programme of radical transformation. These insights have been substantiated through an emphasis on the extent to which the economic legacy of the past will impact on the economic policy options for a post-apartheid project.

For most blacks, though at the risk of over-generalisation, the expectation had been that the future (ANC) government will have uncontested, if not absolutist, powers to unleash redistribution policies aimed at addressing the socio-economic inequalities of the past. This pre-1994 optimism can be explained with reference to two corresponding political reasons. Firstly, one obvious point is that the majority of 'black' were never exposed to the possible complexities of the economic policy process, both at the level of theorisation and applicability. Secondly, as the political acquiesce and the demobilisation of civil society in the immediate period following the first elections clearly illustrated, it was generally assumed that the future state will resume an interventionist role.

This expectation was further nurtured by the unconscious or conscious political propaganda that the ANC and its alliance partners carried out prior the elections with an objectives of winning support from the 'masses'. Unfortunately, these expectations were short-lived as it became apparent that the post-apartheid state, included being its programme of transformation, was becoming more contested than it was envisaged. This constitute what this thesis refers to as a 'mirage'-- a concept chosen to illustrate the shattering of a particular illusion generated by a sudden vibrant political atmosphere.

While the MERG report could be conceptualised as an attempt to solicit, cement and reconcile some of the 'unrealistic'⁴ expectations such as the now abandoned policy of nationalisation with what the reality of this country provides, its replacement by GEAR is a clear indication that the

1994 elections were indeed a 'political miracle'. This became evident when the immediate post-1994 period was one in which the South African media have been saturated with cynical reports illustrating how the government's policy is increasingly becoming pro-business instead of directly being designed to meet the basic social needs as promised by the 'original' RDP. Acknowledging the inconsistencies within the ANC's economic policies, commentators such as Marais (1998) Michie and Padayachee (1997) and indeed many others within the left-wing critique, attribute the economic policy shifts to the fact that the ANC has never thought critically about matters relating to economic policies. This assertion is to a greater extent convincing, especially when it is being used analytically as a tactical justification for why the ANC's economic policy vision had been so easily manipulated by those favouring free-market policies. This thesis takes issue with this assertion.

It is argued in this thesis that attributing the ANC's economic policy shifts to the fact that this party never critically engaged itself with matters relating to economic policies is a narrow and simplistic conceptualisation of the dilemmas faced by the ANC in the post 1989 period. While it remains an indispensable fact that the recent establishment of the organisation's DEP in 1991 and the lead by COSATU's Economic Trends Group are clear indications that the ANC lacked economic policy think tanks for so long, one should be careful not to confuse lack of blueprint economic policy with economic vision. This distinction is technically significant because logically, lack of economic policy is equivalent to arguing that the ANC never envisaged how the apartheid legacy was to be addressed by a future democratic state.

In the same vein, such an assertion will as a matter of course obscure the fact that the policies which have been guiding the ANC's national democratic struggle have been dislodged only in the late 1980s, pending the demise of socialism in Eastern Europe. This thesis argues that it was precisely the ANC's obsession with state-controlled economic policies which made it to underestimate the consequences of any serious engagement with pro-free market forces, both within the country and outside. This ignorance, of course, was underpinned by quite reasonable, though uncritical, related assumptions. The first assumption had been that the country was experiencing a situation whereby resources are being mismanaged. This romanticisation of 'resource mismanagement' which remained political rather than economic in its rationale, was further deepened by the second assumption which argues that since the apartheid state could be

conceived to as the one which was interventionist in favour of the whites, this will, or should, logically be the case with the black-dominated government in the interests of the historically disadvantaged population groups.

Denied is not the political significance of the above assumptions in the economic policy making process in SA. Instead, the argument is that these assumptions underestimated the complexities of the policy making process. This then means that it is not that there had been a lack of economic policy within the ANC, but that the existed debates over economic policy vision took place within the confines of what the Freedom Charter envisaged and quite interestingly, they were handled in an independent manner from the changing international and national balance of forces.

Using Walt (1994)'s framework of analysis which emphasises power and conflict, this thesis focuses specifically at the context in which the policy making process takes place, at the manner in which different actors in the process interact with each other and also at the forms of conflicts and dynamics of power relations between and amongst these actors. Most importantly, unlike other critics, the thesis does not conceive the ANC as a monolithic organisation. Indeed, as some sections of this thesis show, the ANC's economic policy shifts are not only the product of external influence. They are also a reflection of internal different ideological conflicts and approaches within the ANC itself. An examination of all these complex features will indeed contribute to a new understanding in the analysis of the shifts.

ORGANISATION OF THE THESIS

The thesis is divided into six chapters. Chapter 1 is a review of the literature pertaining to economic policy changes and processes. It specifically focuses on these changes at the global context. The objective is to examine some of the reasons attributed to the present visible hegemony of free market policies. On the basis of this examination, the national context within which the ANC's economic policy vision shifted from the one which existed before 1990 and the one that was adopted after 1994 will be analysed through out the thesis . It is argued that the ANC's shift from Keynesian economics as was envisaged by MERG to an adoption of free-market policies in the form of GEAR could best be explained with an emphasis on the different contexts within which the two policy frameworks emerged.

Chapter 2 is a discussion of the different methods utilised in the gathering and analysis of the data. Chapter 3, 4 and 5 constitute the core of the thesis. In Chapter 3 the thesis examines both the emergence and the abandonment of the MERG report. It goes further to identify different actors during the MERG process and also an analysis of the significance of contending views during the process. It is argued that the inconsistencies and the incoherent outcomes of the MERG report owe much of their explanations to the fact that policy making process is an arena of social conflict, especially in the MERG context for shaping the transition.

Chapter 4 focuses specifically on the ANC's embracement of free market policies. In order to understand these shifts, the chapter takes the same format as the one used in Chapter 3 by identifying different actors in the formulation of the GEAR. The objective is to demonstrate how different actors possess different quantities of influential powers in different contexts. It is argued in this chapter that while some actors in the process of GEAR remained those who participated in the formulation of the MERG report, it should however be recognised that the process of GEAR was more technical, though it could also be seen as an attempt to reconcile the different interests as contained in the proliferation of economic policy documents by the identified different actors. However, it is also argued that in this context, the inherent conflict and dynamics of power relations were aimed at consolidating the attained democracy.

Chapter 5 is a summary of the factors behind the ANC economic policy shifts. It should be stated right from the onset that the thesis acknowledges that there are a multiplicity of factors behind these shifts. Moreover, the thesis focuses on four broadly related aspects: (1) the legacy of the past, (2) the process of globalisation; (3) the nature of the South African transition and (4) the nature of the ANC as an organisation.

In offering a comprehensive theoretical base, the thesis attempts to use Christopher Hood (1994)'s four types of explanations for examining the policy reversals in the OECD countries in the 1980s, namely, (a) that policy reversal comes mainly from the force of new ideas; (b) that policy reversal comes mainly from the pressures of interests; (c) that policy reversal comes mainly from changes in social habitat and finally, (d) that policy reversal comes from inside through the process of self-destruction.

The major findings of the thesis are summarised in Chapter 6. This is done by drawing a link with various theoretical frameworks for understanding economic policy making process. Since the thesis is a preliminary one, the chapter concludes by identifying areas for further research which was not feasible to include given the limited scope and time frame of the this research report.

NOTES TO THE PREFACE

¹ The establishment of the Economic Trends Group (ET) in 1986 and the subsequent expansion of its activities into a more focused sectoral analysis of the manufacturing industries under the Industrial Strategy Project (ISP) formed in 1991 clearly confirmed that COSATU emerged as the key actor in the country's economic policy debates.

² See for an example the *Weekly Mail*, July 21-22, 1991

³ The proclamation by Mandela of the ANC government's intentions to privatise state assets is usually interpreted as a reflection that the ANC is being influenced from outside hence Germany is viewed as a country which is experiencing some benefits and success of neo-liberal policies.

⁴ By 'unrealistic' expectations the thesis does not necessarily imply that the adoption of alternative policy options such as 'privatisation' by the ANC constitute a 'realistic' measurement for addressing some of its constituency's expectation. Instead, this word is being used in a very loose fashion in the thesis to refer to those policy options such as the redistribution of wealth through heavy taxes on those who are 'rich'; nationalisation; and other related policies which are being seen as 'impractical' by most senior leaders of the ANC.

CHAPTER 1

LITERATURE REVIEW

1.1. INTRODUCTION

Beginning in the mid-1980s, South Africa has been witnessing a rather robust saturation of intellectual, political and media-coverage on debates about possible economic policies for a post-apartheid country. By far and large, these debates mirrored what was also taking place at the international level, though in this country it represented a significant entry into social dialogue by parties and individuals who have either been shielded or prevented to speak openly with each other by the policy of apartheid and the militarised state of the P.W. Botha regime.

At the same time, neo-liberalism was at its ascendancy, emerging as a powerful economic ideology in most parts of the world. Perversely, this ideology was earnestly making some in-roads into the Third World countries after gaining momentum and shrewd legitimacy in the developed countries since Margaret Thatcher and Ronald Reagan gained political power in the UK and USA respectively in the late 1970s. In this connection, then, South Africa's occupation with matters of economic policy options could be seen as part of a broad process that was going on around the world.

The thesis takes MERG as its point of departure for examining the policy process and for using it as a case study for illustrating the complexities and uneven contradictory nature of policy making in South Africa. Moreover, an adequate conceptualisation thereof will be to locate this within certain international and national contexts and theoretical explanations. This chapter will therefore review the literature which explore and explain the contexts within which the ANC's economic policy shifts have been evolving.

It will begin by describing and explaining the economic policy changes at the global context, especially as they began in the early twentieth century. The rationale for focusing on the global context is that it would be inappropriate, and indeed unjustifiable, to offer an analysis of the South African policy,

making process in isolation from what was, and still is, taking place in the world. Furthermore, since economic policy processes are not taking place in a vacuum, it is interestingly significant to study and outline some of the ideological ramifications that underpinned certain existed and existing policy choices.

In the South African context, the fact that this country's transition from apartheid to democracy coincided with the advance of neo-liberalism all over the world should neither be underestimated nor overlooked. As a country that 'has' to move from being a 'pariah' state into becoming an active participant in the global economy, the implications of this coincident to South Africa's policy making processes are far-reaching.

These implications are highlighted when the succeeding chapters of this thesis looks at the two contexts that have played significant role in the shaping of the ANC economic policy options. The first context being the period before 1994 while the post-1994 period will constitute the second context.

In doing this, an attempt to conceptualise the economic policy making process is being made. A contrast is drawn between what on the one hand the author calls 'conventional' approaches for analysing policy process, and, on the other hand, Walt (1994) 's approach. The latter approach understands policy in terms of process and power and also about actors. This is the framework adopted in the thesis.

1.2. CONTEXT EXPLORATION

1.2.1 Economic Policy Changes at the Global Context

A. Where do we come from?

In his book, *The Age of Extremes: The Short Twentieth Century 1914-1991*, Hobsbawm (1995) begins by providing the following chronological passage which is worth to be quoted at length:

'the structure of the Short Twentieth Century appears like a sort of a triptych or historical sandwich. An age of Catastrophe from 1914 to the aftermath of the Second World War was followed by some twenty-five or thirty years of extraordinary economic growth and social transformation, which probably changed human society more profoundly than any other period in comparable brevity. In retrospect it can be seen as a sort of Golden Age, and was so seen almost immediately it had come to an end in the early 1970s. The last part of the century was a new era of decomposition, uncertainty and crisis — and indeed, for large parts of the world such as Africa, the former USSR and the formerly socialist parts of Europe, of catastrophe. As the 1980s gave way to the 1990s, the mood of those who reflected on the country's past and future was a growing fin-de-siècle gloom. From the vantage of the 1990s, the Short Century passed through a brief Golden Age, on the way from one era of crisis to another, into unknown and problematic but not necessarily apocalyptic future'

(Hobsbawm, 1994:6)

This quotation sets the premise for the thesis in its attempt to understand the processes and aspects of power structures and social relations which underlie the above-described global changes as 'historical sandwich'. At its base of enquiry, the thesis will clearly penetrate this 'sandwich' by describing the types of policies that contributed to its shape. Specifically, the overriding question will be the extent to which certain policies have been adopted and practiced in certain parts and at certain periods in the world.

Related to this, will be an attempt to explain why certain policies were preferred instead of others or, put it the other way round, why certain policies were abandoned in favour of others. These questions, and possibly many others, are quite imperative for understanding economic policy processes at the

global context. This is because, while the central problems of society include traditional questions such as what, where, how much and for whom goods and services should be produced, there is an acknowledgement that we need to broaden this set of questions to determine which groups actually make and influence economic decisions and for whose ultimate benefit these decisions are made.

The third decade of the twentieth century marked a turning point in the reconceptualisation of the relationship between politics and economics. Traditional economics theorists had always maintained that there is separation between the two. This conception, which was both dominant and hegemonic in the early years of industrialisation, facilitated and cemented what became to be known as mainstream or neo-classical economics' theory. One peculiar situation in almost all capitalist countries is that social and economic goals are deliberately separated. The idea is that a nation should ruthlessly pursue economic market principles, and that, after wealth is economically and efficiently produced, it should then be redistributed, or its production modified, by social policy.

The fundamental basis of this logic owes much of its explanation to the prescriptions of the founding fathers of the mainstream economics, the likes of Adam Smith (1723-1790), John Stuart Mill (1806-1873) and recently, Friedrich von Hayek (1899-1992). In their attempt to come to grips with understanding and interpreting the notion of human economic action vis-à-vis what they viewed as non-economic actions of human beings' interactions in social life, the mainstream economics made some theoretical conclusions which remained the dominant 'philosophy' in our understanding of how the economics work.

In fact, much of their postulations remained influential during the existence of free market economic policies instigated by the nineteenth century British leadership, albeit partially and temporarily under special circumstances (Williams, 1945:124). In their insistence of the need to maintain the above stated separation as a prerequisite for entrenching what they posited as 'free-market system' the mainstream economics make the following interrelated assumptions which have been, and still are, guiding economic policy choices in most countries around the world:

To begin with, they postulated that economic rationality is a function of self-interest or the process in which individuals are concerned with nothing else but utility maximisation. Whether in the form of happiness, pleasure fulfillment or consumption. As read by Etzioni (1988), it is being assumed that

human behaviour is driven by the purpose of goals (utility) maximisation which entails that individuals act 'rationally' as free economic agents pursuing individuals (own) economic interests.

From this logic, it could be deduced that they take the 'individuals' as their unit of analysis in their treatment of how the economy works. This becomes clear when one looks at their other assumption: that individuals, as buyers and sellers, possess full knowledge of the availability and prices of products, job opportunities, and other market conditions. Thus, individuals will act rationally because they also possess preferences and full knowledge (Martinelli and Smelser, 1990:29).

Driven to their logical conclusions, the above postulations generated what today still constitute one of the controversial debates amongst students, theorists and analysts in general, but particularly between economists and sociologists. This debate evolves around the long-standing argument about structure and agency in the process of social change. In this context of economic policy, it greatly centres around how the state and the market, both as institutions, have to relate to each other in matters pertaining to both the production of goods and consumption (redistribution) activities.

However, for mainstream economics, the above said controversy is not in any way a given or 'natural' problem. It only becomes a problem if and only if what they conceive as the logic, or laws, of enterprise — comprising of free individuals who are competing as 'atoms' with each other in a free market — is being distorted by interventionist regulatory external forces. This conception brings us closer to one of their central arguments which is at the core of economic policy debates: the idea of perfect competition and self-regulating markets.

According to them, individual economic action is first and foremost shaped by the forces of demand and supply. In his book, *Economy and Society*, Holton (1992:60) summarises this point quite succinctly: the analysis of the self-regulating market, pioneered by the eighteenth-century writers such as Adam Smith saw the market not simply as a means of economic exchange, but also as a system permitting human freedom and liberty.

In the same vein, Adam Smith introduced the idea of 'invisible hand' to argue that 'instead of the conscious design and purpose of the state, community or tribe, the market more or less regulate itself, relying on a minimum of state support to secure a stable legal framework, backed up by coercion where necessary and by social support for those unable to participate in the market such as the infirm

(Holton, 1992:61).

The case for a self-regulating market is being substantiated through what is seen as the price mechanism. The essential feature of the price mechanism, argue the mainstream economics, is its capacity to regulate and bring into equilibrium the demand and the supply of commodities (Hirsh et al, 1990: 42-44; Holton, 1992:61).

From the above logic, it is then concluded that prices are free to respond to changes in supply and demand and require no regulation from institutions outside the market. It is precisely this conclusion that has been used persistently to launch an attack on any desired intention of state intervention in the economy. This is because when the mainstream economics talk of the supremacy of the market — seen as the most mechanism for optimal allocation of resources — they are in essence arguing against the necessity of planning in the market. The rationale being that if perfect competition can be allowed to prevail in a free market, employment will automatically adjust itself without any form of regulation.

The above postulations have been used against state's direct involvement in the economy up until the beginning of the twentieth century. In a nutshell, economic policies of most countries have, up until the above-mentioned period, been designed to protect individual property rights; entrenchment of private ownership; adoption of complete deregulation processes; restricted control over market prices, trade and money. Indeed, these policies marked a commitment for the entrenchment of the money economy in which most services, if not all, were commodified with the assumption that the market forces have the capacity to efficiently allocate goods and services to all people — what became known as the 'trickle down' approach to resources redistribution¹.

As highlighted earlier on, the above convictions about how the economy works on the one hand, and their subsequent implications for economic policies on the other hand, began to be challenged in the early twentieth century. Something unanticipated, or even 'unnatural' from the perspective of the mainstream economics, did happen in 1929 and continued to be painfully felt from the 1930s until the Second World War (WWII). That was the Great Depression!

The Great Depression of 1929, which followed the destruction of the economies of several states by the First World War (WWI), opened up and initiated space for reconceptualisation of how 'economics' work. Indeed, that period served as one of the conjunctural moments in the history of capitalism — a

moment in which for the first time since the celebration of modernity, a recognition that 'state intervention' is necessary for saving the system in cases of crisis was made. It was conjunctural because right from the outset, intervention by the state was seen as a 'temporary measure', responding to a 'temporary' crisis.

Yet, on the whole, it was the Great Depression that exposed the weaknesses of much of the mainstream economic theory, especially their conviction that the market is self-regulating — that demand and supply of goods and services will always attain equilibrium in such a manner that any form of external intervention will be rendered obsolete, even at the international level. What have been the implications of these developments to matters of economic policy?

First and foremost, from theoretical point of view, the Depression made it possible for the critiques of the mainstream economics to alter the terms of the debate about the relationship between the state and the market; an exercise which resulted in influencing several countries' economic policy options. At a more concrete level, the manifestations of much of the limitations of the mainstream economics as being illustrated by and discovered in the analysis of the causes of the Depression, acted as a vantage point for the emergence of what is currently known as economic sociology. The keynote for this new approach was, in fact, stricken by the anthropologist Karl Polanyi in his notable attempt to explain vast changes in the global economy.

In his book, *The Great Transformation* (1994), Polanyi provides that 'the great transformation' of the modern world came to a climax in the breakdown of the self-regulating international money market and the abandonment of the gold standard (Williams, 1945:124). According to Mittelman (1995:273), Polanyi held that the socially disruptive and polarising tendencies in the world economy were generated by what he called a self-regulating market, not a spontaneous phenomenon but the result of coercive power in the service of a utopian idea (see Polanyi, 1944:29).

Of most importance is the introduction of the concept of 'embeddedness' in his analysis of the relationship between economics and society. To a certain degree, this concept has been used to bridge the long persisted and perceived separation between economics and social life². As Lazar (1996:602) indicates, the concept of 'embeddedness' is fundamental to the sociological analysis of economic action, economic institutions and economic ideologies.

Swedberg and Granovetter (1992:10) have summarised this point eloquently as follows:

'The economy in pre-industrial societies', argued Polanyi, 'was embedded in social, religious, and political institutions. This means that such phenomena as trade, money, and markets were inspired by motives other than profit making. Economic life in these early societies was instead ruled either by reciprocity or by redistribution. The market mechanism was not allowed to dominate economic life; demand and supply did not set the price but rather tradition or political authorities'

Polanyi went further to contrast the above situation with the modern societies. He argued that in the modern societies, however, it was exactly 'the price-making market' that determines all economic life. That a new logic rule(d) these societies, a logic that dictated that economic action must not be embedded in society. The economy, as Polanyi phrased it twelve years after writing *The Great Transformation*, was in this type of society 'directed by the market prices and nothing but market prices' where human beings behave in such a way as to achieve maximum money gains (Polanyi et al, 1957:43; 68).

Providing a detailed analysis of how various economic sociologists employed the concept of 'embeddedness to contest that economic action is socially situated and cannot be explained by individual motives alone as the mainstream economics would like us to believe so, is beyond the scope of this thesis³.

Relevant to this thesis, however, is that the Great Depression, which came as a result of market stagnation internationally, accelerated a need to rethink how the markets work. And whether as institutions, can they really sustain themselves in a self-regulating manner. At the risk of evoking one of the debatable epistemological issues in the social sciences, it is arguable that the Depression itself proved that the economy should not be understood in terms of pure scientific and mathematical laws like those of Sir Isaac Newton who once formulated that 'an object will continue to move in a straight line with a constant velocity unless an external force is exerted on it'.

The second impact of the Depression, which is more central to an understanding of the emergence of 'new' economic policies almost all over the world in the mid-twentieth century is the contribution made

by John Maynard Keynes (1883-1946). Moreover, it should be noted that Keynes' ideas were not necessarily developed as a result of the depression. In fact, Keynes had already registered his disapproval of the *laissez-faire* economics not so long before the 'Wall street crash of the Black Thursday' 1929. However, what the Depression did, if anything 'inevitable', was to give Keynes' ideas an alarming and resounding impetus in influencing economic policies of most countries, especially those who were key victims of the then seemingly 'anachronistic' failures of capitalist' unregulated markets.

As Negri (1988: 12-13) points out, economically, the Great Depression destroyed the political and state mythologies of a century of bourgeois domination. He perceptively stresses that:

'it marked the historic end of the 'state of Right', understood as an apparatus of state power aimed at formally protecting individual rights through the bourgeois safeguards of 'due process', a state power established to guarantee bourgeois hegemony on the basis of citizenship: the final burial of the classical liberal myth of separation of state and market, the end of *laissez-faire*'

According to Hall (1989:363-364), we can, at the risk of some oversimplification, say that there were at least three dimensions to Keynesian doctrine. Firstly, that Keynes introduced a new set of concepts into macroeconomic analyses based on the balance between aggregate demand and supply. Secondly, that Keynes also provided a rationale for more active government management of the economy. In this view, argues Hall (1989), Keynes broke with the classical views of the polity and economy as separate spheres and with the related view that the market economy was fundamentally stable or likely to function best when free from state intervention. This is indeed one of the fundamental contribution made by Keynes in altering the terms of debate in our analysis of the relationship between the state and the market.

In the same vein, Skidelsky (1992:545) argues that one central observation was discovered during the Depression: that once demand falls off, the economy deflates like a punctuated tyre, leaving a large portion of the workforce out of job. The implication of this, analytically, was that the Depression generated huge unemployment which became not only a threat to capital stability, but above all, it also generated political questions about the potential role of the state's capacity to alleviate the situation.

By calling for state intervention into the economy through what he called 'demand management', Keynes was 'arguing that things capable of bringing about a revival do not happen automatically, or at any rate quickly, but that they have to be produced by policy (Skidelsky, 1989:364). Sociologically, the interesting critique that Keynes made in advancement of his call for 'demand management' was that unemployment could not be blamed on the unemployed.

Indeed, he conceived unemployment as something caused by forces beyond the control of the individual. That is, if there is too much demand in the economy, inflation will be high and this will generate high anomalies. In this case, demand management will be a situation whereby the state will have to invest in public works to generate employment. Surely, one of his famous statement which raised the eyebrows of most mainstream economics' theorists, was that the state has to invest even if it will lead to deficits — the idea being to increase demand in order to raise the propensity to consume.

The third dimension of Keynes' doctrine as identified by Hall (1989) is that he also argued for a particular set of policy prescriptions commonly termed 'countercyclical demand management'.

As summarised by Hall (1989:364):

'In periods of recession, Keynesians advocated an active fiscal policy, based on injections of public spending, tax reductions, or public works to be financed by budgetary deficits in order to revive investment and demand in the private sector. However, in periods of excess demand or military necessity, Keynes called for precisely the reverse: deflationary policies designed to reduce consumer demand and thwart inflationary pressures'

This point is quite crucial for understanding the significance of Keynesianism concerning macroeconomic policies. One point to note, which is clearly captured by the above quotation, is that Keynes was not necessarily advocating a control of the economy by the state. Instead, he was calling for state intervention in addressing the irregularities of the market.

However, as it will be shown below, most commentators view Keynes' ideas as having provided a formula for capitalist compromise because of his argument that full employment and sustained economic growth could be achieved within a capitalist economy through judicious use of

macroeconomic management, without any need to interfere with the managerial prerogative of private capital (Hall, 1989:366; Skidelsky, 1992:223-233).

Having outlined all of the above, we are now confronted with a more interesting question in comprehending the global economic policy changes that were brought by Keynesianism in the postwar period⁴. Indeed, the adoption of welfare policies by most states in the world since the middle of the twentieth century owe much of their explanations to the effects of Keynesianism to various policy makers.

Moreover, Keynes never envisaged any form of welfare state, though it will be naïve to conclude that should he had lived longer, he could have developed his ideas in such a way that they were to led him have that thought. In their analysis of the impact of Keynes on welfare policies and debates, Williams and Williams (1995:75-78) argue that:

'Keynes' main contribution to social welfare came indirectly through his attention to unemployment. The concern with unemployment was central to his theoretical and political thinking for much of the interwar years; the level of unemployment was [and is] equally central to the building and maintenance of social welfare system'.

Despite their reservation that it could plausibly be said that Keynes seemed little concerned with the unemployed, but with unemployment, Williams and Williams (1995:79) nevertheless conclude that despite having little to say directly on the subject, Keynes was crucially important to the post-1945 provision of social welfare in the United Kingdom. This is true if one looks at the types of policies that were pursued by countries in different contexts in that period.

The goals and programmes of the emergent welfare state were eloquently summarised by Esping-Andersen (1994:1). Esping-Andersen argues that the advanced welfare state which became one of the hallmarks of the 'Golden Age' of post-war prosperity, improved more than a mere upgrading of existing social policies in the developed industrial world. In the broadest terms, continues Esping-Andersen, it represented an effort to bring about economic, moral and political reconstruction.

Economically, it departed from the orthodoxies of the pure market nexus and required the extension of

income and employment security as a right of citizenship. Morally, the welfare state sought to defend the ideas of social justice, solidarity and universalism; while politically, it formed part of a project of nation-building, affirming liberal democracy against the twin perils of fascism and bolshevism (Esping-Andersen, 1994:1).

At least at the level of description, Esping-Andersen's analysis of how the welfare state came about is being shared by other social scientists. Teeple (1995) and Natrass and Seekings (1996) for an example, also emphasise that the welfare state signaled a compromise between labour and capital in the context of capitalist crisis. In their seminal paper, Natrass and Seekings (1996:1) argue that policies for welfare state gained ascendancy because there [is] an inherent tension between the egalitarian class structure of capitalism society [and hence the market-based distribution of resources] and the egalitarian claims of citizenship.

They contend that from the 1940s, liberal democratic states attempted to address this tension through modifying the distribution of resources in four ways. First, they established a legal and institutional framework for collective bargaining at the workplace and industrial levels (and that in some countries, this was also done through corporatist bargaining at the national level). Secondly, liberal democratic states employed labour market and macroeconomic policies to shape the growth path.

To this point, Natrass and Seekings argue that most states promoted full employment through fiscal and trade policy, as well as active labour market policies. The third way in which liberal democratic states attempted to address the tension was through the provision of welfare safety nets for those outside of formal capitalist relations of production. Finally, states boosted the 'social wage' through the provision of education and health, and sometimes housing, outside of the market.

The central point being illustrated above is that the welfare state policies resulted in the entrenchment of what T.H. Marshall (1949) once termed 'social citizenship' (cited in Natrass and Seeking, 1996). As defined by Marshall (1963:74), social citizenship involved rights ranging from the right to the modicum of economic welfare security to the right to share to the full in the social heritage and to live the life of a collectivised being according to the standards prevailing in the society.

Natrass and Seekings (1996:1) point out that this refers to those rights and duties of citizenship

concerned with the welfare of people as citizens, taking 'welfare' in a broader sense to include such things as work, education, health and quality of life. What this entrenched social citizenship does, is a result into what, borrowing from Polanyi (1944), Esping-Andersen (1990:36-38) calls 'the process of decommodification'. Arguing that the variability of welfare-state evolution reflects competing responses to pressures for de-commodification, Esping-Andersen states that the concept should not be confused with the complete eradication of labour as a commodity — it is not an issue of all or nothing!

Rather, the concept refers to the degree to which individuals, or families, can uphold a socially acceptable standard of living independently of market participation (Esping-Andersen, 1990:37). For purposes of analysis, it is however important to acknowledge that the Keynesian Welfare State has not been practiced homogeneously or uniformly across the globe. Indeed, depending on different social, political and economic contexts, the orientation towards an ensurance of something close to full employment and steady extension of labour rights and entitlements, different countries adopted different approaches and strategies.

It is on this basis that Esping-Andersen (1990) identifies three types of 'welfare state regimes', differing according to the relationship between the state, the market, and the family. Table 1.1. below summarises these three types of welfare state regimes:

COUNTRY/REGION	TYPE OF WELFARE POLICIES
A. USA, Canada, and Australia	<ul style="list-style-type: none"> Welfare provided primarily by the market Public provision of welfare largely confined to minimal benefits to the poor. <p>NB. Decommodification of people minimal.</p>
B. Scandinavian Social democracies: Netherlands, Sweden, Denmark and Norway	<ul style="list-style-type: none"> Public provision of welfare based on principles of universalism — promote equality of the highest standard. People decommodified regardless of class or gender.
C. Germany, France and Italy	<ul style="list-style-type: none"> Welfare same as in the Scandinavian countries but universalism qualified by class based differentials Exclusion of non-working wives from social insurances.

Despite the above variations, an indispensable generalisable feature amongst all of them is that in the period from 1945 to the mid-1970s, distribution progress led by the welfare state and the 'march towards some notion of 'equality' were seen as dominant trends.

According to Standing (1997:8-9), these developments may be captured conceptually by seven forms of security:

1. *Labour Market Security* — adequate employment opportunities, through-regulated full employment.
2. *Employment security* — Protection against arbitrary, dismissal, regulations on hiring and firing, imposition of cost on employees, etc.
3. *Job Security* — a niche designated as an occupation or 'career', plus tolerance of demarcation practices, barriers to skill dilution, craft boundaries, job qualifications, restrictive practices, craft unions etc.
4. *Work Security* — protection against accidents and illness at work, through safety and health regulations, limits on working time, unsociable hours, nightwork from women etc.
5. *Skill Reproduction Security* — widespread opportunities to gain and retain skills, through apprenticeship, employment training etc.
6. *Income Security* — Protection of income through minimum wage machinery, wage indexation, comprehensive social security, progressive taxation, etc.
7. *Representation Security* — protection of collective voice in the labour market, through independent trade unions and employer associations incorporated economically and politically into the state, with the right to strike, etc.

Progressive as they stood, the above once dominant Keynesian economic policies which underpinned the existence of the welfare state for close to 25-30 years, were not to be sustainable. A sudden new era, which though at the risk of oversimplification still exists today, was ushered in from the mid-1970s; marking the end of what is referred to as the Golden Age.

In concluding this subsection and at the same time introducing the next one which explores in detail the causes of the disappearance of the Golden Age and the ushering in of a 'new era' which Hobsbawm

(1995) views as 'unknown and problematic', a quotation from one of the outstanding critics of neo-liberalism, Colin Crouch (1997) in his short paper, 'The Terms of the Neo-liberal Consensus' is indeed necessary:

'For thirty years after 1945 the needs and capabilities of the manual working class set the terms of a basic Keynesian economy. There was broad consensus over the forms of this, parties contending over the precise balance of social policy and taxation, the degree of redistribution to be aimed at, and the extent of steering to be given to markets. As the working class declined in strength in the 1970s and 1980s, the class of global financial capital rose to pre-eminence and economies underwent a major restructuring. Consensus broke down and was replaced by a confrontation — seen at its sharpest in Britain — between anti-Keynesian neo-liberalism and a hopeless defensive labour policies'

B. From Golden Age to...Where are we now?

The evolution of macroeconomic policies around the world has thus far been events-driven. Analogously, this point falls squarely within the matrix of Paul Strebel's analysis of how the scenes for changes are created. Paul Strebel, as read by Webster (1996), offers an interesting analysis of what he calls 'breakpoints' in the analysis of organisational, and possibly structural changes.

According to him, 'breakpoints' are sudden radical changes in business conditions, radically changing technologies, changing community and consumer's attitudes and shifting political frontiers. Strebel contrasts 'breakpoints' with turning points which represents more gradual changes that produce radical consequences over longer periods. Suggestively, he advises that 'breakpoints with turning points may be handled in three ways: first by anticipating them; second by exploiting them and thirdly, by creating them.

As indicated earlier on, certain adopted macroeconomic policies which became dominant at the global level are certainly neither as a result of countries having anticipated them nor of having been created by them. To a greater degree, these policies remain reactive rather than proactive, thus falling under the second way of handling 'breakpoints' as suggested by Strebel above. Now, how has this manifested itself after the booming years of the Golden Age? How and to what extent were the Keynesian policies that dominated the world in the years between 1940s and 1960s became to be

subjected to sudden radical changes?

Inasmuch as it has been argued that the demand-led growth of the post-war period has been necessitated first and foremost by the 1930s Great Depression, the same can be said that the supply-side economic policies that became to dominate the world since the mid-1970s have been, but not exclusively, triggered by the 1973 oil crisis.

Moreover, it is analytically imperative to note that much of the interpretation of the analysis of this crisis have been factorised along ideological lines, with the classical Marxian approaches seeming to have developed a increasingly interest in locating this within the crisis of capitalism's inherent logic of accumulation.

This point has been recently observed by Brenner (1998) when remarking that the [world] economy's decelerating growth from the end of the 1940s to the start of the 1960s led some observers initially to interpret the pattern of postwar economic development in terms of 'monopoly capital'. From this perspective, argues Brenner, the relatively slow rate of growth and relatively high levels of unemployment could be attributed to the control of the economy by giant monopolistic corporations.

Walton and Seddon (1994:4), for instance, indicates that the roots of the current lie back in the 1960s, when the industrial capitalist economies began to experience a profit squeeze reflecting a crisis of overaccumulation. In the same vein, Brenner (1998:138) argues that the advanced capitalist world entered into crisis well before the end of 1973, experiencing falling profitability, especially in manufacturing, and increased rates of inflation.

To this end, he emphatically contends that the oil crisis of 1974-75, except that it has exacerbated the downturn, could not therefore have been the original source of its economic difficulties. Similarly, Mosley *et al* (1991)'s analysis of the international economic context holds that the period 1965-86 has been one of gradual deceleration of growth in almost all parts of the world.

This could be depicted from Table 1.2. below which shows some evidence of growth rate statistics of the mentioned period.

Table 1.2. Economic performance of developing and industrial countries, 1965-86
(annual average percentage change)

	1965-73	1973-80	1980-6
<i>Developing Countries</i>			
Real GDP	6.5	5.4	3.6
Low-income countries	5.5	4.6	7.4
Middle-income countries	7.0	5.7	2.0
Oil exporters	6.9	6.0	0.8
Exporters of manufactures	7.4	6.0	6.0
Highly-indebted countries	6.9	5.4	0.6
Sub-Saharan Africa	6.4	3.2	-0.4
<i>Industrial countries</i>			
Real GDP	4.7	2.8	2.3

Source: Mosley *et al*, 1991, p.5, adapted from World Bank, *World Development Report*, 1987, Table 2.5.

Within this general deceleration of growth, two aspects are worth noting. One is that the developing countries have consistently grown faster than the industrial countries by a margin of nearly 2 percentage points of growth, shrinking to 1.5 as the deceleration proceeded. The other is that within the developing countries, the dispersion of growth rates have widened, with sub-Saharan African countries actually contracting in the early 1980s while China and India were improving on their historic growth performance (Mosley *et al*, 1991: 5)

Nevertheless, the significant of the oil crisis and its subsequent implications to the adoption of policies which break away from the immediate postwar Keynesian ones provide an adequate departure for understanding global economic policy shifts.

In fact, Mosley *et al* (1991:5) captures this argument when saying that the fifteen-year-long slow-down of world economic growth is best understood in terms of two critical events. These are the two

great oil price rises of 1973 and 1979-80 and the consequent debt crisis which erupted in 1982. About the oil crisis and the debt crisis, Mosley argues that they are linked together in a single chain of turbulent events because the governments of the industrial countries allowed an expansion of aggregate demand that provoked a strong bout of inflation in the industrialised world in 1972-3, which in turn triggered off a boom in non-oil primary commodities in 1972-4.

Going back to Strebel's 'breakpoints' tools of analysis as discussed briefly above, these industrialised countries didn't anticipated the long consequences of the above situation. Interestingly, what happened was that OPEC, then a group of 13 countries which are the major producers and exporters of crude oil, to use Strebel's device, exploited the 'breakpoints' by pushing up threefold the price of petroleum⁵, a shock which cut back real growth of output in OECD countries (Mosley *et al*, 1991:6).

By then, as the *Labour and Economic Research Centre* (1990) notes, no-one could doubt the economic muscle of OPEC at the time because their power was felt by poor and rich countries alike. The price of petroleum zoomed from US\$10 per barrel to US\$40 per barrel between 1973 and 1977 (*Labour and Economic Research Centre*, 1990:2). Of much interest here is the implications of these oil price increases to the intensified structural economic changes of most countries in the one world on the one hand, and the types of economic policies which emerged out of that situation on the other hand.

One fundamental implication is that the petroleum price increases by OPEC countries sparked a long wave of global economic recession and inflation. This was because, as a result of the increases in the oil price, OPEC countries accumulated excess of liquidity which found its way to private banks in Western capitals. At the same time, it also generated a huge current account surpluses to OPEC members from oil importing countries hence petrodollars had created an extra flow of cash in the international financial institutions; and all it needed were a willing borrowers at a given interest rate (*Labour and Economic Research Centre*, 1990:3; Weintraub, 1993:11; Walton and Seddon, 1994:11-13; and Mosley *et al*, 1991:5-7).

It is being recorded that 'every year, billions of dollars were transferred to OPEC members from oil importing nations and that the aggregate current account surplus of these member nations rose from only \$7 billion in 1973 to \$68 billion in 1974 — a rise of \$61 billion in a year!

As Coote (1992:32) documents in her analysis of the trade trap, what happened was that the OPEC countries deposited these so-called 'petrodollars' in the big commercial banks of the United States, Europe and Japan and subsequently, because of eager for clients to take these deposits (for money at a standstill not only fails to generate profit, but actually loses value through inflation), the banks began to encourage the bigger and apparently more stable developing countries to borrow heavily⁵.

Thus, the 1973 and 1974 increases in oil prices provided both financial resources and motive for a jump in external borrowing by non-OPEC developing countries. For most poor, non-oil producing countries were badly affected by the high oil prices, something which they couldn't presumably live without because petroleum was a major input in their agricultural sector — which was the key sector of many of these economies.

Arguably, on the part of the developed countries, the miscalculation that the recycling process of loans through their private banks will result in the revival of the 1940s-mid-1950s upturn boom remained a shallow-utopian optimism in the eyes of what some analysts called 'herd instinct'⁶ in banking circles.

This 'herd instinct' practice reached its climax in 1979-80 when a further tripling of the oil price pushed the developed countries in general, but in particular the OECD economies towards serious recession. In his analysis of the crisis of international capitalist system during this period, Gilpin (1997:318) remarks that 'the global recession, the rise in real interests rates due to the drop in the rate of inflation, and the declining terms of trade for exports of debtor economies produced the global debt problem and a severe threat to the integrity of the international financial system. He further argues that the market was unable to manage the escalating crisis.

By 1982 the global debt crisis was already extremely high, reaching its peak in the Third World countries when it risen from US\$130 billion in 1973 to some US\$612 billion nine years later (*Labour and Economic Research Centre*, 1990:3).

Correspondingly, the OECD in its *External Debt of Developing Countries 1982 Survey*, estimates that bank medium- and long-term loans to non-OPEC developing countries increased from \$69 billion at year-end 1977 to \$182 billion at year-end 1982 (Weintraub, 1993:6).

As Mosley *et al* (1991) points out, negative or very slow growth persisted in the industrial countries until the real oil price (which had been eroding slowly because of remaining inflation) finally retreated to a more level in 1986. Table 1.3. below summarises this slow growth.

<i>Table 1.3. Change in export prices and terms of trade, 1965-87</i> (average annual percentage change)					
Country 1987	1965-73	1973-80	1980-5	1986	
<i>Export Prices</i>					
Low - & middle income countries	6.1	14.8	-4.3	-8.3	11.5
Manufactures	6.4	8.2	-3.7	9.4	10.3
Food	5.9	8.6	-4.1	7.2	-7.4
Non-food	4.6	10.2	-4.9	0.0	2.1
Metals & Minerals	2.5	4.7	-4.9	-4.8	13.3
Fuels	8.0	26.2	-4.1	-46.7	22.9
High income OECD members					
Total	4.8	10.3	-3.1	12.0	10.9
Manufactures	4.6	10.8	-2.8	19.6	13.4
<i>Terms of trade</i>					
Low - & middle income countries	0.1	2.6	-2.0	-9.3	1.3
Low economies	-4.8	4.0	-1.1	-6.8	4.2
Middle-income economies	1.7	2.1	-2.4	-16.7	0.3
sub-Saharan Africa	-8.5	5.0	-2.3	-23.2	3.3
East Asia	-0.6	1.2	-0.6	-7.0	1.4
South Asia	3.7	-3.4	1.7	2.8	-2.1
Europe, Middle East, and North Africa
Latin America & the Caribbean	3.9	2.4	-1.9	-14.0	-2.1
17 highly indebted countries	1.4	3.5	-1.3	-13.7	-0.7
High income economies	-1.2	-2.0	-0.4	8.7	-0.1
OECD members	1.0	-3.3	-0.2	12.4	-0.2
Oil exporters	0.3	9.6	-2.2	-47.5	16.7

Source: Mosley *et al* (1991:7) — data taken from World Bank, World Bank Development Report, 1989

The argument about the above figures is that a number of interrelated factors contributed to the international economy's downturn in the run up towards the mid-1980s. It was precisely the lack of possible solutions by the developed countries to deal adequately with the oil crisis that ultimately generated the debt crisis. The link here is that it has been estimated that , of the total debt of US\$500 billion accumulated by the developing countries between 1973 and 1982, about US\$260 billion, or just over half, was directly attributed to increased costs of oil (Coote, 1992:34).

Now, how can one draw a link between the above sketch and the macroeconomic policies that became to dominate the world in the aftermath of the crisis. This is indeed a challenging analytical task. An attempt to offer an adequate and a generally acceptable account on why the world economies failed to sustain the postwar Keynesian policies would be to invite all series of theoretical and conceptual difficulties. The thesis will not attempt to do that since much of the analysis thereof is polarised within conflicting and sometimes confusing ideological parameters.

The point has been observed by Walton and Seddon (1994: 4-6) when indicating that in analysing the implications of the above examined period, for economists more influenced by the theories of Keynes, the evident changes are in part at least associated with a deepening crisis in international economic and political relations associated with a lack of effective international management of an increasingly interdependent global economy and giving rise to conflict between and within states, growing inequality and mass poverty. For this school of thought, continues the authors, deep-seated conflicts of interests between states threaten the process of development but can nevertheless be reconciled, given the political will and a greater degree of coordinated intervention on the part of international institutions and the governments of the more powerful states in particular (Walton and Seddon, 1994:4-5).

Conversely, those writing from a more radical perspective (and often referred to as 'neo-Marxists'), the crisis remained a classical crisis of over-accumulation and is thus intrinsic to the international capitalist economy and its associated political regime (Walton and Seddon, 1994). According to this approach, argue Walton and Seddon, this gives rise to heightened conflict both at the international and the national level as different interest struggle to resolve the crisis to their own benefits. The biggest question then, is whose interests emerged as being favoured by these struggles over the 'best' solution?

Most economic policy analysts concur that the 1980s debt crisis coincided with, if not having given rise to, the arrival in office in the major industrialised countries of political parties of the right convinced — or claiming to be convinced — of the simple proposition that inflation can be manipulated by the control of the money supply (Mosley *et al*, 1991:7). As Mosley *et al* (1991) indicates, in the UK, the USA and the Federal republic of Germany in quick succession, new administrations arrived with the aim of putting this monetarist doctrine into speedy and effective practice. Ironically, a resort to this doctrine, especially the shift by the US to a more restrictive monetary policy in 1979, was tantamount to accepting that 'the liberal dream of an expanding world economy organised in terms of a self-regulating market had been shattered (Gilpin, 1987:341).

However, instead of these countries opting for the then Soviet model of command-economies as an exit from the crisis, an abandonment of what in the post-war period became to be known as the 'middle way', paved way for what is commonly referred to as 'neo-liberal' policies.

Critics like Teeple (1995) argues that the general cause of these shifts was not a changed political vision but rather what has come to be called the 'new reality', the byword for the internationalisation of capital, the coming of the global economy. He continues to contends that this internationalisation of capital, while in essence meant the 'denationalisation' of capital, required four things: firstly, freedom from national controls or intervention; has ultimately no national allegiance; has interests that span the world and far exceed national jurisdictions and; operates within the world economy and possesses a 'global perspective'. In his account of the decline of social reform, Teeple argues:

'One of the central effects of this internationalisation of capital has been the shift from the key or core economic policies informing government practice in the industrial world from Keynesianism to monetarism...by the 1980s Keynesianism had in effect been abandoned' (1995:69)⁷

Yet, Gilpin (1987) distinguishes between two broad accounts of the fading away of Keynesian welfarism as a result of the fifteen or so years of global crisis. He argued that despite the proliferation of contending theories and interpretations ranging the ideological spectrum from rational expectations theorists on the right to Marxists on the left, observers have in essence fallen into two major modes of analysis, the conjunctural and the structural positions. For him, the conjunctural position maintains that the world economy has been buffeted by a series of exogenous shocks and by irresponsible

economic management (1987:342). By contrast, the structural position argues that a number of significant political, economic, and technological changes have altered the structure and functioning of the international economy.

Esping-Andersen (1990) offers similar account, though from a different analytical premise from that of Gilpin (1987). Nevertheless, they both concur that there is merit in both these positions. In quite an indirect, poignant and polemic manner against those who reduces the demise of the welfare state to economic factors, Esping-Andersen (1990) argues that both endogenous and exogenous factors have to be considered equally. He cited the following as some of the various challenges facing the contemporary advanced welfare state:

- a growing disjuncture between existing social protection schemes and evolving need risks due to changes in family structure (the rise of single-parent household, for example), modification of occupational structure (increased differentiation and heterogeneity) and changes in the life cycle (which is becoming less linear and standard, as people engage in a wider variety of activities over the course of their lifetimes and are less constrained by traditional stereotypes of proper behaviour for those in certain age or gender categories)
- changing economic conditions (slower growth and 'de-industrialisation') and demographic trends (especially population aging), both of which threaten the future viability of present welfare states commitments.
- unemployment: the combination of high wage costs (due to mandatory social contributions) and rigidities (such as job tenure, costly termination payments or generous social benefits) is widely regarded as the main impediment to job growth.
- the growing discrepancy between existing programme design and social demands (largely because the design of the contemporary welfare state was informed by a social order that is no longer predominant).
- the welfare state's erstwhile 'model family' is no longer the norm: on one side, we see the rise of the two earner, double-career unit; on the other side, the often dramatic rise of divorce, single-parent households etc.

Pending the above reasons, most social policy analysts hold that the decline of the welfare state is a self-inflicted phenomenon. The argument being made from this approach is that the welfare state has become too expensive to maintain. Summarising the breakdown of the post-war consensus — or what critics like Gilpin (1987:389) term 'compromise of embedded liberalism', Crouch (1997:354) argues that the collapse had been triggered by the crises of the 1970s, the inflationary shock of which tested to destruction the capacity of demand management to deflate when necessary. He continues to stress that both employment and the welfare state had become too dependent on sustained high public expenditure.

Meanwhile, these were accompanied by a decrease in economic growth with a very serious negative impact on wages in most parts of the developed and developing countries. Brenner (1998:7) argues that between 1970 and 1990, the manufacturing rate of profit for the G-7 economies taken together was, on average, about 40 per cent lower than between 1950 and 1970 and that in 1990, it remained about 27 per cent below its level in 1973 and about 45 per cent below its peak in 1965. As epitomised by these figures, the world economy was entering into a long and increasing downturn which in one way or the other, called for the reconsideration of certain economic policy options.

The attack on welfare state policies gained roots with the advance of neo-liberal policies in the West during the last years of the 1970s. As Crouch (1997:352) observed, the postwar consensus was broken down and was replaced by a confrontation — seen at its sharpest in Britain — between anti-Keynesian neo-liberalism and a hopelessly defensive labour politics. By then, inflation gradually eclipsed unemployment in the ranking of economic problems, and reliance on variations of monetary manipulation came to be seen as superior to fine-tune aggregate demand by fiscal means (Mosley *et al.* 1991:10).

Two experimental moments might be singled out as having stricken the keynote for ushering in on neo-liberal policies which reversed most of the postwar welfare policies. The first one is that cited by Teeple (1995) who argues that while neo-liberalism as an economic theory had a long period of gestation in the works of Ludwig von Mises, Friedrich Hayek and Milton Friedman, it was however in 1973 that the theory received its first opportunity to be applied, to become the subject of an experiment in a given nation.

In that year, continues Teeple, the military coup d'état in Chile put an end to democracy, to the reforms of the welfare state, to the trade union movement, and to civil liberties. Teeple further argues that into this Washington-inspired dictatorship came the 'Chicago Boys', 'free marketeer' economists hired to restructure Chilean society, attempting to place it on a foundation of 'market forces' with minimal state.

The second moment is the one being traced by Mosley *et al.* (1991:10) from the mid-1970s vigorous public debate among economists, economic journalist, political pundits and politicians about the possibilities of macro-economic regulation by means of money supply control. Mosley *et al.* (1991) alludes that it was basically the mission of the IMF to the UK in 1976 which raised the salience of monetarist approaches to economic policy and that, between 1976 and 1980, the need for monetarism became a major campaign plank of conservatives opponents.

Enclosed in the monetary versus fiscal policy debate, continues Mosley *et al.* (1991), was the idea that government should not attempt to do too much by way of economic management. Furthermore, that the control of the money supply was thus presented as a simpler and more straightforward policy task than the familiar methods of fiscal demand management (1991:10).

It was precisely these developments that opened the way for neo-liberals to establish their agenda and policy preferences. By the early 1980s, the proponents of neo-liberal policies had already taken over most conservative parties and then increasingly won political power which they used to reverse some of the welfare state policies. Quite interestingly, Teeple (1995) observed that even where the electorate replaced conservative parties in power with liberal or social democratic parties with certain expectation of maintaining or protecting the reformist gains of post-war period, the new governments proved eventually to be at least as committed to neo-liberalism as their political opposites.

As indicated earlier on, the climax was significantly spearheaded by the coming to power of Ronald Reagan and Margaret Thatcher in the late 1970s in US and UK respectively. Following their respective ascendancy to political power, these leaders campaigned not only for the reduction of state expenditures and the cutting of social services, but in what appeared to be a total onslaught against the postwar Keynesian policies, they vehemently called for the 'rolling back' of the state from the economy. The policies adopted thereof are commonly referred to as 'neo-liberalism, a concept which is

normally hard to assign a definite meaning but which could, as will be attempted below, be defined through certain central tenets.

Mosley *et al* (1991) provides that neo-liberalism is an economic ideology which has strong policy preference for economic liberalisation. They argue that this implies the roll-back of the state, both in terms of its ownership of industries, financial institutions and marketing agencies and of its regulatory activities in trade, industry, agriculture, credit and foreign investment. Similarly, Teeple (1995) attributed the following as central tenets of neo-liberalism:

- Promotion of the primacy of private rights
- Perception of the market as 'panacea' and the withdrawal of the state from the economy.
- Liberalisation of the economy motivated by the assumption of Free Economic Zones: model for global economy.
- Deregulation of the economy
- Privatisation of the economy
- Transformation of the tax structure
- Emphasis on reduction of the national debt (with implications of cutting social expenditures as an exit from debts)
- Downsizing of government (reducing the civil servants)
- Dismantling of the welfare state (commodification of services and privatisation of the welfare state)
- Circumscription of trade union powers
- Growth of prisons facilities (coercive control and regular increase of the military and police budgets)

All of the above policies are clearly in opposition with what the post-war welfare state was aimed at achieving. The structural changes that are brought upon by these policies are such that society is increasingly moving towards individualisation, a process underpinned by curtailing most social benefits that were provided by the state.

Without necessarily venturing into a detailed discussion of these neo-liberal policies, some of the differences between Keynesian policies of the post-war period and the monetarist policies that came to dominate the world since the mid-1970s are outlined in Table 1.4. below.

Table 1.4. Differences Between Keynesian and Neo-liberal Economic Policy Frameworks

KEYNESIAN POLICY FRAMEWORK	NEO-LIBERALISM FRAMEWORK
<ul style="list-style-type: none"> ‣ <i>Promote expansion in demand for domestic output to increase growth and employment, especially in an environment of under-employment.</i> ‣ <i>Call for fiscal and monetary policies for stabilisation purpose.</i> ‣ <i>Promote growth and expand economic capacity through fiscal and monetary policies.</i> ‣ <i>Call for active labour market and industrial policies to enhance the environment for long term growth and employment.</i> ‣ <i>Ask the government and the private sector to provide social safety net programmes against regular market failures.</i> ‣ <i>Accept that increasing exports is important, but call for the pace and extent of integration into the world economy to be carefully managed in order to ensure the expansion of the domestic market is underpinned by expanded domestic production.</i> 	<ul style="list-style-type: none"> ‣ <i>Promote savings by reducing tax on profits i.e. since the propensity of the capitalist class is higher than that of the working class, company tax rates should be reduced if savings is to increase.</i> ‣ <i>Deregulate the economy as a whole, specifically labour and financial markets.</i> ‣ <i>Reduce the power of government to intervene in the economy, shifting that power to the market. Government is asked to enhance the environment for the growth of the private sector through legal means and by privatising state assets. Competitiveness is the central rallying concept.</i> ‣ <i>Reduce the deficit and strictly control monetary aggregates in order to keep inflation low.</i> ‣ <i>Integrate the economy into the world market through trade and financial liberalisation.</i>

Source: Adapted from Adelzadeh, A. 'Growth and development' in Baskin J (eds) 1995. *Against The Current*, p.42

Pending the end of the Cold War and the demise of socialism in Eastern Europe in the late 1980s, neo-liberalism became an increasingly dominant force, leading to liberals like Francis Fukuyama to proudly pronounce that the emergence of capitalism as a victor from the Cold War signalled the triumph of capitalism — 'the end of history'. This perceived hegemony of capitalism is further explained, and at times exaggerated, through the current uneven process of globalisation.

In fact, most analysts contend that the present process of globalisation is underpinned by the ideology of neo-liberalism, especially with the latter's emphasis on policies like liberalisation and propagation of export-oriented economic policy approaches.

Like many similar concepts, globalisation is not immune from conflicting ideological interpretations. As Keet (1997) notes, analyses of global economy differ as to whether globalisation is, or the ways in which is (a) a fully integrated entity or international economic system within which national economies have been, or are very rapidly being, absorbed and disappearing; or (b) constituted by the sum of complex interactions between national economies/entities, within and across which operate transnational economic agencies and international institutions; or (c) a dynamic combination of distinctive supra-national global economy, expressed through a range of transnational economic agencies/actors, with national economies and national agencies.

She went further to identify two contradistinguishing approaches to the process of globalisation. On the one hand there are those who defend economic diversity of social and cultural pluralism. On the other hand, are the proponents of globalisation who depict it as a process driven by economic laws or logic, irrepressible market forces and irresistible technological development (Keet, 1997:2-3). Consider the following declaration which represents the latter approach made by Renato Ruggiero, the Director General of the World Trade Organisation:

'anyone who believes that globalisation can be stopped has to tell us how he would envisage stopping economic and technological progress; this is tantamount to trying to stop the rotation of the earth'

(Business Day, 20 February 1997)

The above declaration, as Keet (1997:3) contends, represent a projection of globalisation as a consummated process and established global phenomenon that must simply be accepted or

accommodated, or as an inexorably advancing process that it is impossible to resist, or even modify. What are the underlying assumptions behind this conception?

The commonly held view about globalisation is that it is challenging the traditional role of the welfare state. This conception is usually being propagated by scholars of international relations with emphasis on the threat posed by this process to the sovereignty of nation-states. Related to that, is the argument that the world is increasingly becoming interdependent. Consider, for example, the following definition made by Hall *et al* (1992:65);

'[globalisation] is the multiplicity of linkages and interconnections that transcend the nation-states (and by implications the societies) which make up the modern world'

For Hall *et al*, globalisation defines a process through which events, decisions, and activities in one part of the world can come to have significant consequences for individuals and communities in quite distant parts of the globe.

Yet, what is always being emphasised when analysing the concept of globalisation is the argument that it is a process that is underpinned by the logic of world trade. In this instance, analysts prefer to speak of 'economic globalisation' as an indispensable feature of this process. According to Fligstein (1998) 'economic globalisation' generally refers to three processes. First, the growth in the world economy as a result of firms no longer competing in their own economies but, against firms from other countries around the globe. For critics like Castells (1996) and Piore and Sable (1984), the increase in trade has been respectively reinforced by the use of information technology and a reliance on complex networks and joint ventures by different firms all over the world.

Secondly, argues Fligstein (1998), the meaning of globalisation is the relocation of capital expansion in the so-called Asian tigers. For him, Asian tigers became the gravitational force for attracting international financial investments and indeed, these countries serve(d) the epitome of 'information revolution' which is currently being viewed as one of the indispensable feature of globalisation. The last meaning of globalisation relates to the growth of the world financial markets for debts, equity, and particularly currency (Fligstein, 1998).

Relevant to this thesis is Fligstein (1998)'s analysis that all these three factors have particular implications for economic policies of most countries in the world. Arguing that these forces are being thought to be causing fiscal crises for welfare states, he indicates that

'government are therefore trapped by not being able to respond to globalisation which produces deindustrialisation and more inequality. Virtuous governments can only run economic policies that promote low inflation, low tariff barriers, and cut back on protection for workers and their families in the hopes of attracting foreign investments' (Fligstein, 1998)

Indeed, the process of globalisation has been conceived as denoting the decline of the nation-state's role in providing welfare services (Teepie, 1995). Underpinned by the ideology of neo-liberalism, states are being compelled by this process to withdraw from the economy and leave the rest for the market forces. In so doing, the process of globalisation clearly contradicts much of the Keynesian thinking that dominated the world in the three and half decades after the Second World War.

However, Thurow (1997) notes that the triumph of capitalism has been accompanied by a variety of problems. He argues that the eternal verities of capitalism — growth, full employment, financial stability, rising real wages — seems to be vanishing just as the enemies of capitalism vanished.

Explaining these problems, Thurow (1997) borrows two concepts from the 'natural' sciences: plate tectonics from geology and punctuated equilibrium from biology. It is with the second concepts that this thesis concentrate on in its explanation of the process of globalisation. For Thurow (1997), 'punctuated equilibrium' means a process of quick, rapid and momentous changes that modified anything in a short period of time. He argues that today the world is in a period of 'punctuated equilibrium' which is being caused by the simultaneous movements of five economic plates, namely, the end of communism; a technological shift to an era dominated by man-made brainpower; a demography never before seen (that is, the booming population growth in the world's poorest countries); a global economy; and lastly, an era where there is no dominant economic, political or military power (1997:8-9).

Again, and in the same manner as Fligstein (1999) explains above, what is clear from Thurow's conception of globalisation is the fact that we have now entered in a situation whereby it is

increasingly difficult to design policies that will be of much interests and beneficial to our local markets and national population. The world has become so complex and interdependent in such a way that no country will be capable of sustaining any attempt for 'defying' the imposition of the global rules of the game in its territory!

In an attempt to explain the origin of this global phenomenon, political economy analysts from the left argues that the process of globalisation was from the beginning associated with the concept of imperialism: the global linkage which was based on European accumulation — exploitation of the Third World for accumulation in the First World (Petras, 1996, Amin, 1996 and 1997; Waters, 1995; Radice, 1999; Lehoucq, 1996; Bond, 1999; Barchiesi, 1997).

Locating their analysis within the Marxist school of thought, these analysts contend that globalisation represents the internationalisation of capitalism which is in contrast to earlier periods of colonial expansion, it is presently being facilitated by Transnational and Multinational Corporations which operate across nation-states boundaries.

Waters (1995:74) summarises the conception of these institutions nicely as follows:

'For critics of capitalism they are the vehicles by which intolerable and inhuman practices of exploitation are spread across the globe, and for its friends they are the virtuous sources of investment, technology transfer and the upgrading of the labour force. Until recently, it was possible to offer a more moderate critique of MNEs that they had grown so large and powerful that they undermined the legitimate and often democratically established sovereign authority of the nation-state but in the current context of the delegitimation of the state the debate has become polarized'

Indeed, there has been some debates as to whether it is really convincing to argue that globalisation lead to the interdependence of the world markets or the reinforcement of the powers of certain industrialised countries at the expense of the Less Developed, Developing and the Underdeveloped countries. What appears to emerge as a universal consensus, however, is that processes of globalisation are by themselves extremely uneven in both time and space and that the massive international flows of goods, services and, especially of finance in its increasingly bewildering variety, have created a real world whose rules of governance have not kept pace with such changes' (Dickens,

1998:461). As Dickens (1998:462) observes, 'what we do not have, therefore, is a comprehensive and integrated global system of governance of the financial system'.

These observations warrant some brief analysis as to where do we locate the role of the state. A comprehensive analysis should therefore concerns itself with attempts to explore the major characteristics of the state, not as a passive institution in the process of globalisation, but as an economic actor. This approach involves a focus on state's role as 'container' of various distinctive institutions and practices, as regulator of economic activities and more contentiously, as a 'competitive state' (Dickens, 1998:80). Related to these, an examination of the state's role in shaping the global economy in areas of trade, foreign investment and industrial policies is also important.

Hirst and Thompson (1996) argue that in the context of globalisation the role of the state has not been declining but instead, it has been modified. The authors argues that the state is increasingly becoming an active actor in creating conducive conditions for global competitions through an adoption of liberalisation policies and trade tariffs reduction policies. In their own words:

'In effect, we have moved from a 'government-led international monetary system of the Bretton Woods era to the market-led international monetary system of today...in which there are various areas of regulation performed by different bodies which are strongly nationally based'
(Hirst and Thompson, 1996:130-132)

In this connection, nation-states are not necessarily being subsumed and undermined by the process of globalisation. They are indeed becoming actively involved economic actors, competing with each other to maximise their own 'individual' national interests⁸. The call for countries to become 'globally competitive', or to adopt what is currently referred to as 'world class production' mechanisms, is an indication that the states are becoming actors in the global economy.

Indeed, the role of the state in the process of globalisation has facilitated the process of abandoning the Keynesian policies that have been central to efforts of creating jobs and providing services. According to Bleaney (1985), the implications of Keynesian thinking to most countries' economic policies during the post-war period may be summarised as follows:

- that the balance of government budget should be judged in relation to the state of demand in the economy. This meant that if a country's budget is in deficit at a time of large-scale employment, the appropriate response would be to increase the deficit and not to reduce it.
- that reducing the real or the money wage would not necessarily create more employment, and in fact, this may have the negative opposite effects.
- that monetary policy may not always be capable of ending large-scale unemployment without the help of fiscal measures.

However, in the context of globalisation, countries are increasingly encouraging monetarist policies. The consequences of this, observes Thurow (1997) are: inequality and the widening gap between the rich and the poor keeps increasing; wages continues to fall as a result of the international mobility of capital which is increasingly accompanied by the international division of labour; and the widespread downsizing of corporation in response to global competition.

Nevertheless, the assumption behind the shift towards monetarism despite all these negative consequences has been summarised by Hood (1994:74) when noting:

'The argument goes that if government follows a 'Keynesian' game of making full employment the top priority, labour unions are better off selecting an 'aggressive' rather than a 'moderate' wage strategy. But if government adopts a 'monetarist' game, labour unions are better off selecting a 'moderate' rather than an 'aggressive' strategy'

The Chapter has examined how different economic policy options have been made at the global context. It has looked at what may be called key 'conjunctural moments' which has been central in influencing preferences for certain policies.

In the succeeding Chapters of this thesis, it is being illustrated how some of the above outlined global context impacted on the process of policy making in South Africa. The coincident between the triumph of 'neo-liberalism and the declining 'faith' towards 'Keynesian' thinking in South Africa is being examined in detail.

NOTES TO CHAPTER 1

¹ In an extremely few cases, there have been some exceptions for direct state intervention. This includes areas such as public goods [roads, dams, schools, etc]; in cases of technical monopoly [things resulting from technological innovation and applications, e.g. telephone lines — before the cellular phones, and water pipes]; neighbourhood effects [maintenance through tax] and for paternalistic grounds [disabled].

² Of course as an anthropologist, when using the concept of embeddedness, Polanyi was interested in demonstrating how other factors like culture, religion, tradition, morals, values, rituals etc., which from his view remain the basic fabrics of society, should not be treated as alienated and independent variables from both an understanding and an interpretation of how economic action takes place.

³ For a detailed analysis see Granovetter (1985); Etzioni (1988); Holton (1992); Swedberg and Granovetter (1992); Lazar (1996) and Swedberg (1997). *Note:* While in principle these authors share Polanyi's emphasis of the centrality of the concept of 'embeddedness' as an analytical tool for challenging the mainstream economics' theory, they do however criticise him of romanticising this concept. Indeed, as sociologists, they acknowledge the relevance of the individual as an 'agent' of social in contrast to the 'socially-moulded' one as seen by Polanyi.

⁴ Ironically, an examination of the significance of Keynes in international political economy debates reminds one of the voluminous debates that followed the collapse of socialism in Russia, especially those who were on the defensive — arguing that it was not socialism that collapsed, but Stalinism. One of the most interesting questions that political scientists kept on posing in their confrontation with this challenge was that: 'Was Stalin, as a person, necessary in the making of the Soviet Union?', meaning that if it wasn't Stalin, would Soviet Union have existed the way we knew it. In the context of this thesis, perhaps the question is: were we to talk of the Golden Age without Keynes? This is not a polemic question; it goes right in the heart of what we call sociological explanation of social change! Hence some analysts even prefer to use the concept of 'Keynesian Welfare State' to refer to most of the policies adopted in post-war period.

⁵ The OPEC countries exploited the 'breakpoints' because their success in building a 'commodity cartel' by quadrupling the price of petroleum was due to a peculiar set of favorable circumstances as existed in the developed countries by then. For instance, it is argued that both demand and supply were ripe when the third Arab-Israeli war in 1973 caused Arabs to impose an embargo on the West when the ruler of Iran took advantage of the situation to raise the price of petroleum exports drastically. See for an example Gilpin, 1987 *The Political Economy of International Relations*, pages 296-305; and Mosley, 1991: 6-8.

⁶ Initially, Third World Countries were not being given preference for borrowing loans from these banks because they were declared 'risky areas'. However, as the global trade deteriorated further, they were allowed access, especially an increase rate in the early 1980s. The major banks in which many of the OPEC countries deposited their profits included Citibank, Chase Manhattan, Continental Illinois, Bank of America in the USA, Deutsche Bank, Bank für Gemeinwirtschaft and Dresdner Bank in West Germany, Barclays, National Westminster, Lloyds and Midland in the United Kingdom, Credit Suisse, Union Bank and Swiss Bank Corporation in Switzerland (Labour and Economic Research Centre, 1990:2). Thus, the loans were particularly attracted to countries such as Brazil, Mexico, Chile, Venezuela, Nigeria, Zambia, South Korea, the Philippines and Indonesia.

⁷ 'Herd instinct' was a concept invented by some critics of the sheer tendency and belief that the expansion of financial lending across the globe is a reflection of and one component of competitive business with the capacity to stimulate international trade system. In this context, 'herd instinct' refers to both the lack of proper financial risk analysis during the lending process by the private banks and to the fact that 'when one major bank makes a move the rest follow — e.g. if one bank's loan to a 'Third World' country tended to be followed by other banks.

⁷ An analysis of these policy shift is very interesting. In his propagation of his ideas, Keynes was brave enough to tell the orthodox economists that the era of *laissez-faire* was over. By the same token, the 'new reality' proponents reversed the same message by denouncing his policies as 'outdated' to address the huge deficits that they have accumulated by following one of his famous statement that governments have to invest to stimulate demand even if that meant deficits.

⁸ Moreover, this analysis does not imply that nation-states are synonymous to individual firms. The difference between states and firms lies in the fact that the latter will always relies on the former to put in place enabling policies to facilitate competitive trade. Yet, in the context of this thesis, the relationship between the two involves the latter not adopting a 'wait-and-see' position, but an active position of influencing the state to put in place those policies.

CHAPTER 2

RESEARCH METHODS

2. I. INTRODUCTION

South Africa remains one of the highest unequal societies in the world. It is a country which is experiencing inequalities between blacks and whites in areas of education, job opportunities, wage and income levels, occupational and access to other basic social services. The World Bank in its study, *Reducing Poverty in South Africa* has admitted this, by declaring that 'South Africa is among the small group of middle-income countries (including Brazil, Jamaica and Honduras) with grossly unequal distribution of income. The study discovered that while the country's per capita income of around \$2, 600 US dollars put it in the uppermiddle income range, 51 percent of annual income goes to the richest 10 percent of household while under 4 percent goes to the poorest 40 percent (1994: 1).

As is well known, the above unequal distribution of resources is accounted for by the policy of apartheid as instituted by the National Party's 46 years of rule. As Coleman (1991:3) argues, successive governments, particularly after 1948, sought to provide whites with a high standard of living. In fact, the National Party's commitment to better the lives of whites at the expense of blacks was an adherence to the party's leader, D.F. Malan, who in 1943 proposed that the state intervene to the maximum possible degree in the economy to help the poor Afrikaner achieve his rightful share of South Africa's economic cake (Coleman, 1991:3). It is precisely this institutionalisation of racial inequality that led the World Bank's study to conclude that 'in sum, South Africa exhibits that most bitter of social outcomes: destitution amid plenty'.

Arguing that South Africa's experience is similar to other countries in which the organisation and reorganisation of the colonial state was a response to a central and overriding dilemma: the 'native question'; Mamdani (1995:18) invented the concept of the existence of a bifurcated state. According to him, the bifurcated state contained a duality: two forms of power under a single hegemonic authority.

In the same vein and in recapitulation of Moodie (1994:274)'s evocation of the concept of social structure in explaining and analysing the manner in which black cheap labour was socialised into accepting and living with the hardships of mining conditions in the Reef, Von Holdt (1995) argues that the accumulation of wealth by the white minority at the disadvantage of the black majority was permeated, facilitated and indeed endowed through the creation of what he calls the apartheid workplace regime. Apartheid workplace regime refers to the extension of racism and racial attitudes from the broad sociopolitical sphere into the economic sphere.

The ultimate results of all of the above characterisation was a deepening of unequal access to resources between blacks and whites, leading the former population group to live in destitute poverty. This resulted into what Nattrass calls the apartheid welfare regime. With the transition from apartheid to democracy becoming a possible reality, it was hoped, by those who have been the victims of the existed apartheid welfare regime, that the above inequalities would be remedied.

To a greater extent, this optimism was central to the MERG report's overall aims. The MERG (1993:1) states that the political transformation of South Africa will make it possible to achieve economic growth and to set realistic goals for improved living standards and economic security for all South Africans, especially the most disadvantaged.

Arguing that despite difficult conditions globally and domestically this new economy can be achieved, the MERG report declared that 'what is needed is effective state intervention, a vigorous private sector, the active involvement of women and men in all spheres of society, and a carefully-designed, implementable, and wellsupported macro-economic strategy for transition (1994: 1). The

report's proposals envisage the state undertaking a large programme for increasing provision of education, training, housing, and health care; and organising the distribution of land rights to women in landless rural households. In this context, the MERG report was setting up an agenda for addressing the legacy of the past by the future democratic state in South Africa.

However, for the reasons that will be discussed from Chapter 3 and 4 of the thesis, the macroeconomic framework as proposed by the MERG was never accepted and adopted by the ANC, despite the fact that the MERG was the organisation's initiative. Moreover, the ANC government adopted the COSATU-initiated RDP as its election manifesto and later on after the elections of 1994, adopted the RDP as its official government policy. As Padayachee (1996:11) notes, one result of this was that MERG did not effectively feed into the RDP's formulation. Moreover, he also acknowledges that after intense internal lobbying by some ANC members who have been actively involved in the MERG, the ANC ultimately endorsed the state-led, interventionist RDP-framework as official policy.

The South African policy making process was yet incomplete in the immediate period after 1994 elections. This became clear when in November 1994, the ANC government transformed the RDP into an RDP White Paper. This was followed by another policy document, the GEAR, unveiled in June 1996.

These two documents, which respectively became to be the most important policy documents of the government, tore apart the state-led, interventionist framework as once envisaged by both the MERG and the RDP. This sudden shift in the ANC's economic policy thinking warrants both an explanation and analysis, particularly because it is presently being alleged by most people that the ANC has 'sold out' on what it has promised during its election campaign in 1994.

As Edwards (1998:49) argues, at that time it has been estimated that three quarters of the total population of 40 million which were black Africans, had the vote for the first time, but that:

- a quarter of them (about 7 million) lived in squatter camps or crude temporary housing
- over 40 per cent of them (about 2 million) had no access to clean water and that;
- over half of them (about 15 million) were illiterate

Having abandoned the MERG and the RDP's left-Keynesian/developmental approach, what had the GEAR achieve now in 1998, three years after it has been unveiled? The picture is alarming and some critics have argued that the strategy has in fact achieved the opposite. Thus, while with respect to access to water and electricity it may be argued that the ANC has done fairly well in some sections of the rural areas, it is however a matter of grave concern in the area of unemployment and job creation.

The seemingly disillusionment and rather cynical attitudes the majority of black Africans tend to develop towards the ANC-led government have prompted this thesis. Beginning in late 1994, there has been an attempt from a wide spectrum of analysts to explain and account for these shifts. Moreover, much of the analysis so far has been an emphasis on the substantive aspects of the GEAR strategy in contrast to other policy documents of the organisation. Conclusions that have been made so far are that the ANC's current economic policy shifts from the Freedom Charter, the MERG and lately from the RDP, is currently facilitating the supremacy of free-market forces by limiting the role of the state in the economy.

This thesis will account for the shifts not from a comparative approach in terms of what has been abandoned at the level of content. By contrast, the thesis is closing this gap by focusing on the process of policy making in South Africa. In order to do that, the following research methods have been utilised for gathering and analysing data.

2.2. RESEARCH DESIGN

One indisputable fact about research is that it is mainly one's research area that usually determines one's research methodology. Given the nature of this thesis, the author decided to utilize the qualitative research methodology. This is because the thesis is both a descriptive and explanatory research piece. It is descriptive because it sought to provide an accurate profile of a group of individuals who are and have been involved in the policy making process in South Africa. It is also so because it sought to describe the process of policy making as happened through the period of MERG (1991-1993) in contradistinction to how the GEAR was unveiled in June 1996.

After building from this descriptive analysis, the thesis took an explanatory form in attempting to understand why the ANC's economic policy thinking shifted from MERG's approach to GEAR. As Neuman (1994:20) advises, going beyond focusing a topic or providing a picture of it, explanatory research looks for causes and reasons, this thesis focuses specifically on why certain recommendations of MERG were abandoned, rather than on *what* was abandoned. Moreover, since there is a dialectical relationship between the *what* and the *why* questions in the economic policy making process, the former question will be treated in an *a priori* manner so as to provide a coherent form of explanation.

There are number of reasons and advantages on why qualitative methods were chosen instead of quantitative ones during this research report. To start with, qualitative techniques are not concerned with measurements. Instead, they tend to be less structured than quantitative ones and in this case they can therefore be made more responsive to the needs of the respondents and to the nature of the subject matter (Walker, 1985:3). Again, as most social scientists (Walker, 1985; Neuman, 1994 and 1997; Burgess, 1982) argue, qualitative research methods generates large volumes of exceeding rich and deep data obtained from a limited number of individuals. This is because unlike the quantitative methods which would be concerned with providing a static image of social reality external to the respondents, the qualitative approach is processual and concerned with the social reality that is socially constructed by the researched.

Thus, the qualitative research method employed in this thesis has been quite helpful in realizing the objective of this research. In an endeavour to examine the ANC's economic policy shift, the author was guided by the fact that 'qualitative research methodologies seek to learn about the social world in ways which do not rigidly structure the direction of the enquiry and learning within simplifying, acontextual, *a priori* definitions (Jones, 1985:46). This conviction has helped the author to treat some of the already existing and 'commonly' cited reasons by ordinary people in their attempts to explain the ANC's policy shifts in a very cautious and disciplined manner. This was done by adopting two sociological approaches recommended for data gathering processes.

Firstly, the author took the strategic identity of an 'acceptable incompetent'. As defined by Neuman (1994:346), this identity takes as its premise the acknowledgement that a researcher is in the field to learn, not to be an expert. An acceptable incompetent researcher is someone who is interested in learning about the social life of the field someone who is partially competent (skilled and knowledgeable) in the setting but who is accepted as a nonthreatening person who needs to be taught (Neuman, 1994:346). As cited in Neuman (1994:347), Schatzman and Strauss maintain that:

'the researcher should play down any expertise or profound knowledge he may have on the subject on which the host may claim to be expert, the researcher is and should act the learner, indicating no inclination to evaluate the host's activities'

Secondly, the three key features in the sociological perspective as stressed by the Viennese-born social theorist and sociologist of religion, Peter Berger, in his highly readable introduction to sociology, *An Invitation to Sociology* (1966) were used as valuable starting points. The three features are: 'debunking motif', 'unrespectability' and 'relativism'. By debunking motif, Berger means that the sociologist need to adopt a very sceptical stance towards 'official' or 'common sense' definitions of reality, to look for hidden or even deliberately masked structures or social patterns. 'Unrespectability' refers to the requirement to avoid too close a connection to, or immersion in, the respectable world lest this should dull the sociologist's perception of poverty, deviance and other

problems which 'respectable' or 'nice' views would prefer to ignore or play down. Finally, relativism, which is hard to define, could best be understood as a willingness and ability to stand outside one's own social position and to recognise social differences as valid rather than aberrations or incomprehensive deviations from the absolute standards of one's own society or social group (Barrat and Cole, 1991:9).

Moreover, since the crucial point about social research is that there is no such a thing as presuppositionless research, it has been maintained to use some of the author's already grounded understanding in such a way that enables one to gain and discover new data from the respondents in certain directions than in others. 'This is because the author viewed the respondents as human beings, not as organisms responding... to some external stimulus, nor inexorably driven by internal needs and instincts, nor as 'cultural dopes', but as persons, who constructs the meaning and significance of their realities (Jones, 1985:46).

As Jones (1985) continues to argue, they do so by bringing to bear upon events a complex personal framework of beliefs and values, which they have developed over their lives to categorise, characterise, explain and predict the events in their worlds.

It is this central feature of qualitative research, described by Mouton (1988) as an encounter with [different] qualities of human which enabled the author to uncover complex meanings and accounts of the policy process that ultimately became useful to the author's analysis of the reasons behind the ANC's economic policy shifts.

Furthermore, since the author has acknowledged from the start that he will be encountering different explanations, utilizing qualitative strategy also allowed him to synthesise on certain less differing views and expressions and thus allowing me further to clarify, and enrich my assumptions in quite an appropriate reflective manner.

The following techniques have been followed in the utilization of the qualitative research methodology for this thesis:

2.2. 1. Sampling

Decisions regarding the composition of the sample for a qualitative study emerge from the objectives of the research area and are modified by a considerations governing choice of method and the scope of the study (Morton-Williams, 1995:30). Since the main objective of this thesis was to explore the economic policy process on the hand while on the other hand was to gain explanations as a to why the economic policy shifts were made, the author has decided to use the non-probability purposive sampling.

As Neuman (1994:198) defines it, non-probability sampling is an acceptable kind of sampling for special situations by using the judgement of an expert in selecting cases with a specific purpose in mind. He further indicates that this type of sampling is appropriate in three situations. First, it is used by researchers to select unique cases that are especially informative. Second, it is used in a situation whereby the researcher wants to select members of a difficult-to-reach, specialised population and thirdly, when the researcher wants to identify particular types of cases for in-depth investigation. Indeed these three situations were applicable to this thesis.

The policy-formulation process involves areas of contention and conflict over what should be adopted or opted for as an appropriate strategy for solving or attempting to solve a perceived social problem. For this being the case, the author has decided to select interviewees from people who have been involved in the policy making process in South Africa in the period 1991 to 1996, either as individuals representing certain organised interests or as individual economic policy experts, analysts, consultants or advisors. A focus on MERG and GEAR made it possible for the author to select those individuals. One important advantage of purposive sampling in this instance was that it has enabled one to select a manageable number of respondents from a total of about 37 active

participants from the MERG process and also from 11 active participants in the formulation of the GEAR strategy.

Ideally, the targeted total sample population from which the author had to select respondents who were easy to reach was 98. Because the majority of these participants are currently either occupying key positions in government or working in distance areas difficult to reach, pending the time-span and the unavailability of sufficient resources (funds), the author was aided by the fact that purposive sampling does not emphasises the aspect of representitivity.

Morton-William (1985:30) points out that rather than taking a random cross section of the population to be studied, purposive sampling is a selection of small number of people with specific characteristics, behaviour or experience to facilitate broad comparisons between certain groups that the researcher thinks likely to be important. This has been the case in this study and two factors influenced the author's decision to select 20 respondents from the overall total sample of potential participants.

The first factor was that some of the individuals did participate in both processes (MERG and GEAR) and this made it easy for the author to gain quality data from their reflections of the policy process took place in two different contexts. The second factor was that the sampled respondents were relatively homogeneous with respect to those characteristics that was to influence their participation in the discussions or the views which they were to express. They were all individuals who tend to develop a significant interest in the economic policy debates and processes in South Africa.

Moreover, it is important to state that in the process of conducting the interviews, one extra sampling technique presented itself.. snowball sampling. It presented itself because it was not chosen from the onset, but came as a result of the author's interaction with his research informants. Jones (1985:47) has succinctly captured this possibility when insisting that there are persons with social skill, if not always the overt positional power, to manage and control an interview as

effectively as their researchers, including being able to declare that the question they have just been asked is irrelevant and/or meaningless to them. The respondents were by themselves experienced social policy specialists or researchers. At certain instances, this characteristic glintly manifested itself when they recommend that to gain an additional insight about a particular point the author should speak to other people whom were not included in this thesis's sampled population. By so doing, they were introducing the author to an interconnected network of policy makers or individuals who have more information about the specific area the thesis was seeking information on.

To indicate that this process resembled snowball sampling should not necessarily imply that the author's research respondents took control of directing him towards individuals whom they thought will share their views. Nor do that imply that they ended up blurring the author's overall research aims and objectives. The author did not just follow their recommendations slavishly because that could have interfered with the author's original plan — though not in an extreme negative fashion. In avoiding this 'trap', while at the same time adhering to the aspect of flexibility as one feature of qualitative research methods using purposive sample, the author was able to assess the extent to which those recommended individuals will contribute to the research's aims in general, and to the kind of data that had been mindmapped after the interview.

2.2.2. Methods Used For Gathering Data

In-Depth Interviews

This thesis used the qualitative research technique of conducting in-depth interviews. This technique was chosen because it is a conversation in which the researcher encourages the informant to relate, in their own terms, experiences and attitudes that are relevant to the research problem (Walker, 1985:4). As Burgess (1982) once argued, in-depth provides for the researcher to probe deeply, to uncover new clues, to open up new dimensions of a problem and to secure vivid, accurate, inclusive accounts that are based on personal experiences.

Since this research was aimed at understanding policy-making as an arena of social conflict and dynamics of power relations, my respondents were able to relate some of what they perceive as the factors and reasons that influenced the ANC's policy thinking in such a manner that was quite free and unrestricted. This has been possible since the premise from which the thesis approached and conducted the in-depth interviews was that of conceptualising them as a 'complicated, shifting, social process occurring between two individual human beings, which can never be exactly replicated (Jones, 1985:48).

Moreover, Walker (1985:4) stresses that depth interview is not completely unstructured since the skilled interviewer constantly appraises the meaning of emerging data for his patterns and uses the resulting insights to phrase questions that will further develop the implications of these data. In fact, Jones (1985:47) strongly emphasises that there is no such thing as a totally unstructured interview. Taking this argument into account, the author designed a semi-structured, open-ended questionnaire to facilitate the interviewing process. The original semi-structured questionnaire comprised of 20 open-ended questions.

These questions were organised according to the following themes that were relevant to the overall objectives of my thesis: identifications of different actors in the policy process; reflections on how the process was managed or in itself unfolded; areas of conflicts, contentions and matters relating to power relations between and amongst these actors; explanation and account on the possible reasons for the ANC's economic policy shifts; and how the two economic policy frameworks could be conceptualised and contextualised.

In much the same as is the general characteristic of qualitative research methodology, Walker (1985:4) insists that the interviewer is not bound by a rigid questionnaire designed to ensure that the same questions are asked of all respondents in exactly the same way. He further advises that at most, the in-depth interviewer will carry an *aide memoire* and is therefore free to follow up interesting ideas introduced by the informant. During the research, the original semi-structured

questionnaire were used with the first two respondents only. From there onwards, the author kept on modifying some of the questions and designing new ones so that some of the themes might be followed-up. This had been quite interesting because by their nature, in-depth, semi-structured open-ended interviews help to reveal, rather than close-off, complexities, contradictions, silences and nuances. Thus, the advantage found in this technique is that it gave the author chance of phrasing and rephrasing my questions not only in preparation for the next interview or for making follow-up, but also during the actual interview with a respondent. In ensuring a correct verbatim, the author has also used both shorthand and tape recording, though the latter was only used for those who allowed the author to do so.

Other Methods Utilised

Burgess (1984) has suggested that the information gained from interviews is often used in conjunction with other data that has been collected during the research process. As was the case in this study, the data that was collected during the stage of familiarising the author with debates about economic policy making process in South Africa, and the one that came out during the actual stage of this research have been quite useful. This information came from four sources.

The first source was an intensive literature review about economic policy issues and the various theoretical frameworks explaining the nature and causes of policy changes. This literature was drawn from both South African context and from other experiences abroad. The second source of information involved perusing some of the economic policy discussion documents, particularly those relating to MERG and the GEAR strategy and those prepared by different interests groups in their attempts to lobby state policy. Most useful in this regard had been some of the research reports relevant to this thesis which was obtained from institutions such as the World Bank, HSRC, CPS and from the DBSA.

Thirdly, since the thesis was concerned about exploring the process, taking as its hypothesis that the shifts from MERG to GEAR are the product of conflictual power relations between different

actors/individual, the author also had a privilege of going through some of the available records, minutes and memos of the MERG proceedings which are now being kept by MERG's successor, the NIEP. The last leg involved the tedious, time consuming but exciting and valuable scan of newspapers and relevant magazines's reports and editorials.

The thesis utilised the above methods in a triangulation and supplementary manner. The strength of triangulation is that by supplementing methods and trying to counteract the weakness of each method, uncertainty can be reduced because this approach gives the researcher confidence that the data generated are not simply artefacts of one specific method of collection (Blumer, 1994; Cohen and Manion, 1989).

2.3. ETHICAL ISSUES AND ACCESS

In any social science qualitative research, the researcher is usually confronted by all series of ethical challenges. The direct personal involvement of a field researcher in the social lives of other people, or their activities and their views raises many ethical problems (Neuman, 1994:363). This is because, through the in-depth interviews, in order to understand why persons act as they do we need to understand the meaning and significance they give to their actions in a manner that is sensitively comfortable and acceptable to them.

Jones (1 985:5 1) captures this point when remarking that:

'if we researchers want to obtain good data it would be better that the persons we are interviewing trust us enough to believe that we will not use the data them, or that we will not regard their opinions as foolish... Thus, the stress in much that is said About interviewing is on the need to assure respondents of confidentiality, on using and developing the social skill (verbal or nonverbal) which we have all used at some time or others to convince others that we want to hear what they have to say, take it seriously, and are indeed

hearing them'

The above quotation introduces us to the need for establishing rapport during field research. Given both the timing and the nature of the thesis, building rapport with the thesis's potential informants emerged as one of the indispensable prerequisites for data gathering. The thesis was aimed at gathering information from people of high calibre — policy makers who are always busy, out of the country at some points and whose schedules for meetings were always booked for occasions that were in no way comparable with that of academic research activity the author was pursuing.

The timing of the thesis also brought in some political and ideological challenges. This is because it took place in a context in which South African economic policy makers were being accused of having failed the ANC to live up to its promises during its five years period of government. These accusations, coupled with the nearing of the second round of this country's democratic elections in 1999, are increasingly exerting a greater degree of pressure to the thesis's research informants — the majority of which by the time of the research were either occupying key strategic policy positions in government or serving as policy advisors to government officials.

Building rapport have also been necessitated by the fact that as a qualitative researcher, one has to be in the social worlds of the research informants. These social worlds are intrinsically featured by complex phenomena of power relations accompanied by all sorts of attitudes and perceptions. Therefore, the author could not avoid the uncomfortable dilemma that the research might be used against the interests of the people being studied. Walker (1985:19) emphasises this ethical challenge when indicating that 'unlike the quantitative researcher, the qualitative researcher cannot distance himself from his data by retreating into the elegant world of mathematics ... instead, he is continuously confronted in his analysis by the social world of his research world. Stressing that what qualitative research can offer the policy maker is a theory of social action grounded in the experiences -- the world view of those likely to be affected by a policy decision or thought to be part of the problem, Walker (1985:19) warns that this theory may or may not include specific references to the subjects' definitions of the policy problem, to their wishes or their likely reactions

to policy initiatives. The relevance of rapport in this case becomes that the theory should be derived systematically and methodologically from the researcher's understanding of his/her subjects in a way that restores the legitimacy of subjectivity, and -- even more important -- gives it visibility and weight.

The thesis's research informants were assured of confidentiality in the process of building rapport and indeed there has been some instances in which the author was asked either not to use the tape recorder or to mention names in the presentation of this thesis. The latter request had been done because some of the informants were concerned that the issues this thesis will raise might affect their positions and statuses as government officials.

Moreover, it is with great confidence to indicate that it was primarily because of the author's research skills that despite the fact that one was interested in researching about some of the controversial social relations that were embedded within the process of policy making, the respondents developed a sympathetic attitude towards my curiosity. This was in line with May (1993:98)'s argument that in order to assist in placing the person at ease, attention is given to the issue of rapport which means that a basic sense of trust has developed that allows for the free flow of information.

Building rapport goes hand in hand with other ethical issues like informed consent. Neuman (1994:435) summarises this aspect quite nicely when declaring that 'a fundamental ethical principal of social research is: never coerce anyone into participating; participation must be voluntarily. Critical as this point appears, it introduces us into some of the difficulties being experienced when negotiating access to some of the thesis's potential informants.

Burgess (1994:88) claims that it is necessary to consider the extent to which personal characteristics such as experience, age, sex and ethnicity will influence the field researcher's role, field relations and the research process. Related to this claim one may also add on issues of race and status which all of them have much to do with power relations between the researcher and the

researched. To be frank, none of the above mentioned things did impact negatively to the thesis' research process. In fact, all of those respondents that the author managed to interview were very open, approachable and indeed interested in listening to what sorts of questions the author was interested in with regard to the South African policy making process. The reason for this cordial relationship, supposedly, might be that they were also interested in matters of economic policy.

The only problem that the author experienced with access, though this might be explained with reference to their respective positions in society as has been explained earlier on, was that it was not easy to get hold of them. This is a general problem as observed by most researchers who had the experience of conducting interviews with people who may be described as 'elites' in society. Confirming this difficulty, Neuman (1997:337) states that social researchers are aware that they also need to study powerful elites if they are to understand society but that few do so because elites are by their very nature difficult to penetrate. The major problem here is that gaining access to elites is by their very nature difficult and the gatekeepers are formidable (Neuman, 1997:337). Gaining access to these people of high positions involves facing security guards, bureaucratic organisation/company and private secretaries and other bureaucratic procedures.

During this study, the author had to make many phone calls — establishing, confirming and rescheduling appointments for interviews. The author was also requested by some to post or fax a brief summary explaining why he want to interview them — something done not to explain the study, but as part of their-protocol prerequisite for meeting them. Furthermore, Ostrander (1993) and Hunter (1993) as cited in Neuman (1997:338) have said that elites are very interested with whom else the researcher has already talked. Most of respondents were always asking this question, though the author have realised that they were asking this question tactically so as to come and say 'I think Mr. X or Mrs Y is best placed to speak to you before you can come to me'. In order to gain access, the strategic response to these questions was that of telling them that the author had already spoken to those (other) individuals and that, in fact, he was referred by some of them to him/her.

As indicated above, my research informants were highly educated and knowledgeable. Neuman (1997:338) argues that this has several implications. Firstly, he argues that this means that the researcher is expected to have conducted extensive library and background work prior to direct conduct. Because of the intensive literature review that was done by author, coupled with the tedious exercise of newspaper scan in familiarising oneself with public opinions pertaining to economic policy matters in South Africa, the author did not experience any significant difficulty in this regard.

The second implication as identified by Neuman is that, by virtue of their quality of complex experiences about the subject being studied, elites may try to dominate or manipulate the research situation — by consciously or unconsciously willing to direct the conversation away from what the researcher finds of interest and use up the time to clarify some of their assumptions about the researcher's objectives. Neuman advises that in dealing with this implication, the researcher needs to gain sufficient control to accomplish his or her purpose. He further stresses that he or she needs refined social skills and diplomacy, and wants to get the elite member to let down his or her guard without creating tension or distress. In relating some of the author's experiences about this challenge, there is need to first locate research area into context.

As indicated in the rationale subsection in the preface of this thesis, the author's aspiration to focus on MIERG has developed out of his curiosity to try and get a feeling from its participants as to why the document was never taken serious as it was presumably expected when the process was initiated in 1991. Fortunately, some of the reasons for this manifested themselves during the interviews. Some of the thesis's research informants kept on advising the author, if not insisting, that perhaps the best start for assessing the ANC's economic policy shifts could have been the policy shifts from the RDP, not the MERG. The reason being that the latter was never an official economic policy of the ANC. However, as the main aim was not to explore the substantive differences between either the MERG or the RDP in contrast to the current government policy, the author managed to convince them that the MERG report could still be an adequate start for understanding the process of policy making in South Africa.

THE EMERGENCE AND DISAPPEARANCE OF MERG

3.1. INTRODUCTION

The point from which the thesis departs in analysing the economic policy process in South Africa is that of acknowledging the metamorphosis undergone by the ANC in the past couple of years. That is, a contrast has to be drawn between the ANC as a national liberation movement and the ANC as both political, 'government-in-waiting' party and ultimately as a ruling party. For purposes of analysis, this contrast is extremely imperative hence the varying degrees of pressures the ANC remained subjected to even before it became a governing party and had to surmount them not only from its defined constituencies and membership, but also from other interests groups in the run up to the first democratic elections in 1994. With particular reference to the first identity — as a liberation movement — the ANC has been defined broadly as a mass-based political organisation driven by principles of participation and consultation, with emphasis on mandatory decision making on key policy issues and strategies.

Moreover, one has to point out that the idea of 'participation' is sociologically debatable and indeed a contested one. Particularly in the case whereby it is poignantly assumed that the ANC has been inclined to mandatory decision-making processes. As far as this thesis is concerned, both participation and consultation processes will be used to refer to situations whereby the ANC's membership was able to make significant inputs, with the leadership being able to drive the organisation's diverse perspectives and views, and sometimes very conflictual and controversial, to reasonable and acceptable levels of consensus.

The history of this 'culture of participation' or 'mass-involvement' stretches back to the formulation of the Freedom Charter, forty-three years after the ANC was found in 1912. The process that led to the emergence of the Charter was indeed more participatory. Prior to the Congress of the People in Kliptown

where the Freedom Charter was formulated, there were series of activities and campaigns for collecting information and nominating representatives to the congress. Commenting on the authenticity and participatory mood of the process, Suttner *et al* (1995) remarked that 'for the first time in the history of South African resistance, the people were actively involved in formulating their own vision of an alternative society [and that] from the moment of the adoption of the Charter, all political solutions 'from above' were ruled out'. Arguably, this tradition prevailed in all years to follow during the ANC's existence until very lately.

Without necessarily exaggerating this point, it could be argued, however, that since the adoption of the Freedom Charter, there have been some processes which reflected a commitment to mass participation in the formulation of this country's post-apartheid economic policy by the ANC. Examples in this case might include the Conference for a Democratic Future (CDF) which was organised by the ANC-aligned United Democratic Front (UDF) under the auspices of the Mass democratic Movement (MDM) in 1989. The CDF, which took place in Johannesburg within the context of the 'Defiance Campaign', never gained popularity or served as a solid foundation for any serious policy debate for years that followed. Politically, instead the CDF served as a fora in which the MDM and the broad anti-apartheid forces both within and without South Africa expressed their discontent with the apartheid policies of the then ruling NP on the one hand, while on the other hand it was an event in which these forces reaffirmed and re-asserted the black opposition commitment against the system.

However, what is at issue here, is that the CDF itself, served as an organising and revitalising tool for mass involvement in policy making - indeed serious resolutions and declarations were adopted around economic policy matters by close to 4600 delegates from over 2100 organisations. Walter Sisulu, who by then was one of the Presidents of the Internal Leadership Core Group of the still-banned ANC, captured this in his opening address of the conference when remarking that 'not since the Congress of the People in 1955 has so broad an assembly come together to chart the future of our beloved country' (Conference for a Democratic South Africa Report, 1989).

It was earnestly in the beginning of the 1990s that this tradition started to decline slowly, paving way for 'elitist' forms of policy making which come to constitute the ANC's character in the post-1990s period. In fact, despite the fact that the ANC leadership remains accountable to its mass membership, through its

annual general conferences which are defined as its highest decision making body by its constitution, the drift towards side-lining the inputs of its masses in broad macroeconomic policy issues and other broad crucial political issues generated a feeling of despair to most of its constituencies. Nevertheless, this 'elitist' or rather 'centralisation' of decision-making processes of policy options, which of course was an emerging 'alien custom' in the tradition of the ANC, was hard to swallow by the organisation's membership - not only between the ANC top leadership and its branches (local, provincial and regional), but it was also questioned between and within the organisation's branches.

For instance, in November 1990 the *Weekly Mail* newspaper managed to penetrate some of the emerging resentment over lack of consultation within the ANC-led alliance. The paper reported that at an ANC briefing in August of the same year, union leaders [were] known to have strongly criticised the inadequate consultation by the ANC over the dropping of armed struggle. In a way which captured that in theory there is a three-way alliance between COSATU, the ANC and the SACP while in practice the ANC decides for others in a top-down style, the paper quoted one insider as saying:

'it's a paper alliance each organisation is supposed to play an independent role, but in fact everything has been collapsed into the ANC. It demobilises, encourages perpetual hibernation [and that] part of the problem was the 'imperial leadership style of Nelson Mandela and the style of many exiles [being] top-down, commandist - very different from the MDM"

(*The Weekly Mail*, November 9-15, 1990:33)

Again, in April 1991, the South African Clothing and Textile Workers' Union (Sactwu), a 200 000 strong membership affiliate of COSATU by then, publicly chastised the ANC for lack of consultation on calling for a consumer boycott which was to run from April 8 to April 13 as part of the ANC's broad massive campaign in demand of a constituent assembly. In its account of having placed advertisements in the media countrywide in objection of the boycott announcement by one of the ANC PWV regional executive member, Abie Nkomo, Sactwu argued that the boycott was an imposition from above because community organisations and unions were not consulted hence an announcement of a consumer boycott necessitated a national response (*Work in Progress*, May 1991).

The above points were nothing else but the tip of the iceberg as the ANC continued to rely on top-down approaches not only on key political tactics and strategies, but to a greater extent, on fundamental economic

policy matters. However, as I have indicated above, there were a number of factors upon which this tendency or practice was permeated to gain momentum. Principal amongst others, is the context within which the ANC had to make quick decisions in facilitating the process of reforms from the late 1980s. As Cronin once captured this situation, 'the ANC was expected to pronounce on everything from Iraq to seal-culling' (*The Weekly Mail*, November 915, 1990:33).

The pressures that the ANC became to live with were not in no way from without. They significantly represented an inherent contradiction of a process of transformation from within. As it has been pointed out elsewhere, the ANC entered the transition from an ill-equipped position which have been nurtured by economic policy rhetoric and political populism. Thus, 'transformation from within itself' in this context meant that the ANC had to transcend those rhetoric and populist statements by sharpening and concretising its vision of a new South Africa.

Accordingly, social policy formulation imply a thorough re-orientation and understanding of the issues that constitute the focus of any specific policy which an organisation, or even governments, have to or admires to develop (Gill; 1992:69). It means the identification of the problems which are to serve as the basis of any policy opted for by an organisation or government. It is in this light that the establishment of MERG became one of the centre-piece for economic policy making in South Africa.

In the next sub-sections, the thesis will focus on the processes that led to the emergence of the MERG report, actors in the process of policy making during that period and lastly, on areas of conflicts and power relations, which will then introduce us into understanding the report's disappearance from the South African policy debates. The argument to be made in this chapter is that despite the fact that it could be claimed that the MERG attempted to solidifie some of the uncoordinated social, political and economic expectations of most of the historically oppressed population groups in South Africa, it could however, from an analytical point of view, be contended that it reflected a ripen jolt towards a rather flamboyant and grudgingly 'elitist' process of policy making. Some of the problems being experienced during the MERG process are a reflection of an organisation (the ANC) attempting a balance between its traditional *modus operandi* and the demands of a speedy process for providing something tangible in sustaining the process of reforms that were already taking place during the negotiations in Kempton Park.

3.2. *THE EMERGENCE OF MERG AS A POLICY- MAKING PROCESS*

The starting point for conceptualising MERG is to ask the question: why a need for it arise in South Africa and specifically at the time it did? The straightforward answer that is always given by most economic policy analysts and media commentators alike, both from the left and the right spectrum of the debate, is that there was an urgent need for a thorough macroeconomic policy analysis in preparation of a post-apartheid state. Yet, going beyond this simplistic, though factual answer, one is confronted with another set of analytical curiosity. That is, given the fact that the MERG was operating outside the parameters of the state, what was its significance as compared and contrasted against the then apartheid state's policy making machinery?

An adequate comprehension of the above questions warrants a need to glance back on the policy making processes in South Africa during the era of apartheid. Moreover, this has to be located within the context of how the NP conceptualised the state as an institution and as a source of political power. This is a debatable point, but, in their analysis of the evolution of apartheid policies, Lipton and Simkins (1993:6) appear to have correctly read the existing consensus amongst different arguments when concluding that 'the NP treated the state sector as its private fiefdom, openly using government contracts, licencing and subsidies to promote Afrikaans enterprises in mining, agriculture, finance, manufacturing and commerce'. They went further to argue that it was clearly an essential feature of the NP strategy that economic development should not be shaped by the market forces but by deliberate state intervention. More relevant to the theme of this thesis is how did the NP co-ordinate its economic policy making processes in its endeavour to realise the above intentions.

One of the astonishing features of those processes had been the extent to which the NP relied heavily on what became to be known as Commissions of Inquiry. In his analysis of the policymaking process in South Africa, Ashforth (1990) viewed these Commissions of Inquiry as representing what he calls the 'grand tradition'. According to him, these Commissions were 'schemes of legitimation' which sought to resolve a central contradiction in the state structure by reformulating official understanding...' (1990:250).

Premising from discourse analysis, Ashforth also indicates that the language used by these Commissions appears as if it is neutral, designed to persuade policy makers that there are 'objective' realities which

warrant some policy changes. Yet, what is particularly striking thereof is that the process itself was narrowed to involve the so-called 'experts', assumed to be bearers of 'truth'. These 'experts's function, according to Ashforth's argument, is not simply to solve the 'problem', but it is also to legitimise a particular view of the 'problem' - thus, the expert both legitimises an authoritative view of social reality (the problem) and delegitimises alternative views of this reality (Webster and Buhlungu, 1997:2).

Essentially, despite some of the criticisms levelled against Ashforth's conceptualisation of the policy-making process by experts and about his treatment of the Commissions of Inquiry, the point is that the apartheid state had greatly relied on these Commissions to 'objectify' and invent certain biased understandings and representations of the nature of the South African society to others. This 'objectification of reality' through an assumed power of and - over knowledge by policy-making experts has been the central pool from which all social, political and economic structures of apartheid were cemented and indeed also invented as inevitable 'given' features of the South African society.

The role of 'experts' in both the formulation and in influencing the policy process constitutes a central aspect of the discussion and argument of this thesis. To a greater extent, their involvement can be explained with reference to the research output being made by them as 'academic economists' in their respective areas of interests for understanding the South African setting. We have, of course, both 'progressive' and 'non-progressive' economists, depending on one's own subjective view. Nevertheless, following Padayachee's examination of the relationship between these academics and the anti-apartheid social movements, 'progressive academic economists' will be used here to refer to those academics who have been actively involved with anti-apartheid social movements and who were (at least initially) also opposed to the dominant neo-liberal economic policy framework (1998:447). Most of these academics, argues Padayachee, were based at the historically white, English speaking universities, and the leading historically universities of Western Cape and Durban-Westville.

By contrast, 'non-progressives' would refer to those who have been, and maybe still continues to, serve as 'think-tanks' for the support of neo-liberal policies in South Africa¹. Arguably, these 'non-progressive' academics, and indeed other independent research institutions, have been forming the core of the Commissions of Inquiry as studied by Ashforth. Padayachee (1998:432) alluded to this fact when claiming that:

'The National Party, which assumed power a few years after the end of the second World War had set up its own exercise in social engineering. The Party drew on right-wing, apartheid-supporting academics in the Afrikaans-speaking universities, especially at Pretoria and Stellenbosch, as well as those in state-funded research think tanks such as the Council for Scientific and Industrial Research (CSIR) and the Human Science Research Council (HSRC), to provide academic justifications for some of its key plans and policies'

Given this scenario, it became a matter of logic that the ushering in of a new society would have to rely on totally new sets of economic policy making machinery and approaches. The MERG, at least at the level of theory, became one such resource. However, before one can explore both the process and the rationale behind the establishment of the MERG, there is one preliminary aspect that needs to be taken into account. That is, an aspect relating to the specific context within which the MERG emerged.

Remarking about the necessity of this aspect in the analysis of policy making processes, Walt (1994:3) indicates that 'how far groups can participate in policy making is dependent on the political system and how open or closed it is. In this instance, it became necessary to identify and understand the context because it remains a critical factor impacting on the nature and content of policy change (Klugman, 1992:2). Moreover, it is significant to point out that the MERG was initiated under pressing moments in the history of South Africa - moments which were not only pressing and watched by this country's citizens alone, but which were also drawing the international community's attention.

The mood of this context was ironically captured by two corresponding editorials of the *Finance Week* (FW) magazine. The first was when the magazine reported that 'the democratic movement is pursuing a number of initiatives to develop a number of policies for the transformation of the South Africa economy and in appreciating these developments, it went further to echo that 'such an all-round approach to policy formulation in the transition is necessary and important, given the multiplicity of problems in our country and the broad range of support for the movement' (FW, 1993: April 22-28. p.9). In much the same vein, the second editorial of FW in early 1994 reported that South Africa historians will record [the period 1991-1993] as having one of consensus-building.

Yet, while the editorial noted that apart from the MERG and the NEF, a plethora of other forums which, taken together, define a framework for public and participatory decision making on policy, it nevertheless went further to lament that 'our future historians are unlikely to pay the same attention to consensus-building in the economic arena (FW, 1994: Jan. 6-12, p.14) These comments, and many more others which paid critical observation to complex processes of economic policy making, summarises the mood and activities of some key moments in the South African setting as it took place in the early 1990s in general and in particular, situating the MERG within these processes.

3.2. 1. Processes And Rationale Leading To MERG

The MERG was established as a direct result of the recommendations of a mission to South Africa by the Canadian International Development Research Council (IDRC) in mid-1991 (FW, 1993: April 22-28). It basically followed Mandela, by then the president of the ANC, 's visit to Canada in 1990 where he raised the urgent need for better understanding of economic policy issues in South Africa within the anti-apartheid movement

In response to this request, a team of Canadian and African economists headed by Gerry Helleiner and including John Loxley and Benno Ndulu were appointed to make recommendations to the political leadership of the ANC about how to improve the movement's capacity to formulate economic policy (IDRC, 1991:2; Padayachee, 1998:438 and Marais, 1998)². The structure of the Mission Team was based on an earlier undertaking that the IDRC would have a free hand to design the proposed initiative. It was agreed that in consultation with the DEP of the ANC, the mission would be a joint initiative involving both external and internal members. As well, it was agreed that the principal client for this activity would be the antiapartheid economic community within South Africa, with particular attention being paid to the ANC. Secondary clients for this activity would be the Canadian Government and other potential donor countries that may provide financial resources to support the recommendations emerging from this initiative (IDRC, 1991:3; van Ameringen, 1995).

Together with other South African leading stakeholders and academics, the IDRC assembled what became to be known as the Mission Team. In July 1991, this team travelled to London, Johannesburg, Pretoria, Cape Town and Durban to assess the economic research and policy formulation capacity of the anti-

apartheid community in South Africa, and to formulate recommendations on how the need for economic research and policy formulation could be met in the period leading up to the transition to a non-racial, democratic South Africa. The mission met with a wide range of groups representing government, business, trade unions, academics, and political organisations (van Ameringen, 1995: xii). For members of both the Mission Teams and the organisation conducted during the mission see **Appendixes A and B** respectively. More specifically, and in line with the argument that any policy formulation process should start off with the aspect of problem identification, the mission's objectives were threefold (IDRC, 1991:2; van Ameringen, 1995:2-3; Padayachee, 1998:437-438):

1. To identify the key areas of national macroeconomic, trade, and sectoral economic policy on which the anti-apartheid economics community should focus its attention in the short term, paying attention to those economic questions that could be affected by the constitutional negotiations. These would include such fields as fiscal and monetary policy, foreign investment policy, trade policy, international and domestic finance, industrial and agricultural policy, and income and employment policy.
2. Assess the existing capacity of the anti-apartheid economics community to evaluate, monitor, and develop policy options in the key areas identified, as well as the potential of other existing capacity within South Africa to respond to the needs as defined.
3. Suggest the next steps that may be required to complete this needs assessment (if necessary), develop means of responding to the identified needs, and begin to meet some of them, with reference both to existing resources in South Africa and to resources from Canada and elsewhere.

The findings of the Mission Team concerning the above objectives are eloquently summarised by Padayachee (1998:438) as follows:

'The IDRC Mission to South Africa found that the economic policy capacity of the movement was both underdeveloped and uncoordinated. Even where capacity existed (for an example, among local university-based economists who were sympathetic to the movement) their research often duplicated other work, was not sufficiently focused on policy, and was poorly linked to the ANC's DEP, which had by now relocated from Lusaka to Johannesburg. The DEP in turn was understaffed, poorly organised, and its leadership appeared to have made little or no effort to mobilise the sources of relevant experience available at some universities'

It was on the basis of the above findings that the MERG came into being. MERG was publicly launched at a media function in November 1991, and the launch was addressed by Nelson Mandela, by then the President of the ANC. The launch was also attended by representatives of many governments and funding agencies - from Australia, Canada, Germany, Scandinavia, the United Kingdom, and the United States — who expressed support for the MERG project (Padayachee, 1995: 60). One month later, in January 1992, MERG's research projects were launched in Johannesburg.

Based on their conclusion that the need for economic policy analysis at [that] critical moment in South Africa's history [was] so great that it was unthinkable that sources of relevant experience remained immobilised or inefficiently used, it was agreed that the DEP should take the lead of the MERG process, supported by friendly donors as appropriate, in rectifying the situation (van Ameringen, 1995:5).

Thus, it was proposed that the ANC should draw in potential sympathisers or experts from the below five categories:

- a. Members of the democratic movement, already engaged in employment, support, or research for progressive groups, unions, etc., and demonstrably disaffected with the state.
- b. Economists outside state institutions or the big business sector who are sympathetic without being activist, or even are ambivalent, neutral, or worse, but would respond if asked.
- c. economists within the state or the big business sector who are sympathetic and would like to be helpful.
- d. South African economists still in exile
- e. Overseas economists sympathetic to the MDM

The above identified categories clearly established potential actors in the policy making process during MERG. Ideally speaking, these actors were to be concerned with two parallel processes of policy making. Firstly, the MERG was established to 'stimulate and co-ordinate policy research and training in the identified priority areas (see Appendix C for a detailed list of the issues identified for the MERG process). Secondly, however, the most urgent priority was the development of a 'macro-economic policy framework' within whose terms and parameters various policy options could be tested and economic policy-making take place.

The MERG was broadly aimed at building research capacity on the one hand, while on the other, it had to do the daunting task of providing possible economic policy options to policy makers — in this case to the ANC. As will be shown in the next subsection it was precisely the difficulty in attempting to create a balance between these two expectations that was to serve as a prime source of conflict which came to characterise the MERG process.

3.2.2. Structure and the Co-ordination of the MERG Process

In some of the interviews conducted for this thesis, some respondents were cautiously and sensitively lacking the outright brevity and confidence of pointing out that the MERG was under the auspices of the ANC³. From an analytical point of view, two interrelated observations might be alluded to: technical ingenuity. The first relates to one having to ensure that he/she does not 'violate' a particular official position of an organisation she/he feels to be part of. When the MERG presented its macro-economic policy final report in 3 December 1993, the ANC's position towards the report was announced by Trevor Manuel who said 'I would like to say that [this] is not an ANC policy'. (quoted in Matisonn's commentary in the *Mail and Guardian* newspaper, Nov. 6-12 1998, p. 16-17).

The second observation has much to do with the timing of this research itself as discussed under the thesis's Chapter 2 on Research Methods - the subsection on ethical issues. Given the fact that the current government policy has not come close to delivering on its ambitious promises of employment creation, redistribution, growth and foreign investment (Marais, 1998), most policy influentials in the ANC are inexhaustibly involved in a trenchant attempt to justify without recourse why the failures of the government policies should not be blamed on the abandonment of the pre-1994 ANC's position.

Quite recently, the sense of disillusionment on the left in South Africa has been captured by the Australian political commentator, John Pilger (1998), portrayed the post-apartheid ANC-led government as a 'historic compromise between the ANC and the apartheid government in which economic power is left in the hands of the corporate white elite and that all that has changed is 'the inclusion of a small group of blacks into this masonry (Pilger, 1998:602, also see his commentary to the *Mail and Guardian*, April 17-23 1998 and a wide range of responses and comments of this in same newspaper dated 24-30 April 1998). Therefore, this

surprising rejection of the direct connection between MERG and the ANC meant in essence that the latter was not necessarily expecting much from the former.

In quite an unexpected way, interviewees like Alan Hirsh even appeared to be uncertain about who exactly initiated the MERG, let alone to mention that he understood it to have been 'a research arm' of the ANC by academic activists. Echoing similar uncertainty, Alfie Green, one of the former administrative personnel of MERG, even went to the extent of claiming that the MERG was an 'NGO' established by the IDRC for universities which were working with the ANC⁴. Interestingly, some of the interviewees even denied that the MERG process could be classified as one of the popular documents ever produced for the liberation movement in South Africa. Stephen Gelb, for an example, made the following technical remarks about this point:

'That is to say that the current government policy is not popular with the mass of the membership of the ANC. How do we know? Actually we don't know. I mean, certainly, amongst certain group (of activists in the SACP and in COSATU it's true, yes, the MERG report was more popular. But that does not mean that the mass of the ANC membership, you know, may be preferring the one over the other, they might not even know the difference of the one over the other'⁵

Presumably, Stephen Gelb's reflection on the MERG process as outlined above might not be the same as the one he might have made before 1994. It clearly represents, as will be discussed in details in the next succeeding Chapters, a sentiment which has undergone significant transformation in the past five to six years. Whatever the case, the status of the MERG process in relation to the ANC was clearly laid down during the launch of the project in 1991. This was captured by Nelson Mandela's foreword in the publication by the IDRC of the final report about *the Mission on Economic policy Formulation for Post-Apartheid South Africa* (van Ameringen, 1995:vii-viii). He said

'The apartheid regime was successful in restricting the access of the members of the democratic movement to the nation's policymaking processes. It was for this reason that during my visit to Canada, shortly after my release from prison, I asked then Prime Minister Brian Mulroney for assistance in helping the African National Congress to understand economic issues better and to develop its policymaking capacity in this regard'

Introspectively, strengthening and stimulating the South African research capacity was not an end in itself, but a means to a particular broad purpose. The purpose was clearly captured when it was declared that 'as a government in waiting, the ANC must advance... and begin to function as if it were in power, thus facilitating the eventual transition (van Ameringen, 1995:9). Four objectives were thus outlined to enable the ANC to re-asserts its economic policy.

Firstly, it was argued that economic policy that shapes South Africa's future and limits the discretion of a future democratic government is being made daily on national, regional and local levels; and that the ANC must have the capacity to deal with and shape these policy issues urgently. Secondly, that the ANC must be ready to assume power and establish early credibility in a post-apartheid government. Thirdly, that the ANC must convince others in the democratic movement, especially COSATU, that it is capable of analysing economic issues and formulating economic policy in the interests of the movement; and lastly, that the ANC must demonstrate that it has an organised, disciplined process through which its public pronouncements on policy pass, to improve public confidence in the coherence and reliability of such pronouncements (van Ameringen, 1995:9).

In addition, it was also pointed out as an expectation that 'through the MERG, the ANC and the democratic movement sought to achieve two distinct goals. The first goal was to develop a new macroeconomic framework that would guide these organisations through the negotiations and in preparation for government; and secondly, to generate an environment conducive to training promising black economists to be able to participate in substantive economic policy making.

From all of the above, it could thus be argued that the MERG was to rely on the direction, and even control, of the ANC. The powers that were given to the ANC's DEP for identifying and recruiting potential actors in the MERG process, included being the responsibility to employ fulltime staff — especially the position of the overall co-ordinator — speaks volumes about why one might conceive the MERG as an ANC initiative rather than as something that was politically neutral as some respondents like Alan Hirsh and Stephen Gelb would like it to be⁶. This point becomes clear when one looks at how the MERG was structured and co-ordinated.

The central support structures of MERG consisted of the following:

- A **Steering Committee**, which was its governing body, made up of representatives of the ANC, COSATU, civics, and participating university representatives;
- The **Policy Makers Forum**, which was set up at the express wish of the ANC and COSATU to 'provide an opportunity for the policy-makers from the democratic movement to interface collectively and or bilaterally with the research groups.
- The **Economic Research Committee (ERC)**, which was made up of economists from the five participating universities (and the co-ordinator of the Economic Trends Group) and whose main function was to approve research proposals, enter into contractual agreements with the research teams and donors, and approve disbursements of funds to the research projects.
- The **Donors's Steering Committee Forum**, which assessed and reviewed funding requests.

MERG also had a 'quality control' arm, the **Economic Policy Advisory Group (EPAG)** or what most of my respondents preferred to call 'reference group'. This group consisted mainly of international economists with substantial expertise in policy research, some of whom had longstanding relations with the ANC in exile (Padayachee, 1995: 60). **Appendix D** provides an organogram chart illustrating these structures. The difficulties in sustaining the expected coherence of these structures will be discussed below.

3.3. ACTORS IN THE MERG PROCESS

The above section has slightly touched on some of the criteria used to identify potential actors for the MERG. This criteria was recommended for by the IDRC Mission Team. What is deducible thereof is that the reasons out of which the MERG was found — tied to the objectives set for it by the Mission Team — served as the determining factors of who should participate in the process. Based on this, MERG could be seen as a process organised around criteria of inclusion and exclusion. With its target being the ANC and the democratic forces in general, it became clear that actors like the then apartheid state and the business sector were excluded from participating in the process. The exclusion of these actors was laid down during the establishment of the process when the Mission Team defined the MERG's relations with them by declaring that 'the business and government should be urged by the MDM and by the international community to allow unconditional access to information required for macro and sectoral economic policy formulation' (IDRC, 1991: 41).

When asked why the MERG did not include representatives from the state and business, in whatever vague form, Harry Zarenda was quick to respond that 'there was a feeling that MERG should be independent from *both the state and business* ... it was set up to counter the research capacity of the business sector' (emphasis added)⁷. As it was explained earlier on, the reason for this was that the democratic forces lacked sufficient data for researching on economic policy issues and it was felt that the state and business should be available for any request by the MERG researchers if anything substantial was to be achieved. The irony here was that the state and business was to equip a force whose objectives were to counteract their respective policies! From the conducted interviews, the following were found to be key direct actors in the MERG process:

- a. Local academics recruited from South African universities
- b. Foreign policy experts
- c. The ANC's DEP and its aligned partners in the form of COSATU and SANCO

Thus, before venturing into an exploration of how and why each of these actors were drawn into MERG on the one hand, and on the other on how they did actually interface with each other, it is extremely logical to conceptualise their respective roles.

3.3. 1. Local Academics From South African Universities As Actors

An insightful contribution to an analysis of the relationship between social science research and policy processes by Martin Bulmer is that social science today is part of the policy making process in a way that it was not a generation ago. He went further to states that 'governments of all political persuasions, on both side of the Atlantic, rely upon social fact-gathering and analysis on an unprecedented scale... and that this provides data for government departments on demographics structure, employment, education, housing and health (1996:3).

Bulmer's argument has been recently echoed by Friedman (1995:21) by remarking that 'decision-makers may once have been able to decide without the aid of research: but society in the late 19th and 20th century was a great deal less complex than it is today — and our society is more complex than many [because] it has become virtually impossible to take informed political decisions, frame development or economic policies, or run a large business without informed analysis of the social environment. He thus concludes:

'Policy-makers need researchers because, while they may know what it is they wish to achieve, they may also lack sufficient knowledge of how to achieve it - and because, in an increasingly complex world, they need detailed knowledge of the environment in which they operate if they are to choose policies which will advance their goals and interests. As navigators of states or organisations, they need a map that tells them where they may be going and what the invisible obstacles are that await them if they take particular routes' (1995:1)

Taking the above convincing arguments into account, how, then, did the ANC conceptualise the involvement of academics as actors in the MERG process? How did these academics see their role in the process and what theoretical underpinnings does this raise for an understanding of policy-making as a process?

As it has been argued elsewhere, it was only in 1988 that the ANC did give any serious thought to economic policy-making: there was, before then, little point in wasting energy on framing policy which was not going to be implemented (Friedman, 1995:3; Michie et al, 1997:223-234; Marais, 1998:147)⁸. Given this situation which is analysed as a 'peculiar for an eight-decade-old liberation organisation' by Marais (1998:147), the ANC was, according to one of the respondents, confronted with two broad questions:

'The first problem was: what will we do with the 'fossilisation' of the Freedom Charter? How to take from the 1950s to now? The second one was that people who have been in exile had been under educational influences of a system which had been found not to be effective. These two problems constitute what I will call 'the generic' dilemma faced by the ANC'⁹

In confronting this challenge, academics were found to be a resourceful asset to be utilised through MERG. Moreover, their involvement owes much of its explanation to their history of having worked with the South African labour movement and other organs of civil society beginning in the early 1970s. As Padayachee (1998) indicates, 'progressive South African social scientists and economists played an important part in the birth and early development of the nonracial trade union movement, both just before and after the milestone Durban strikes of 1973'. By the mid-1980s, these academics' contributions focused on providing support to progressive social movements which, by a way of 'exploiting the decisive breakthrough and pressures generated by then mass ungovernability situation within the country, were beginning to carry the anti-apartheid struggle to new heights (Padayachee, 1998:433).

Recognising that social researchers and intellectuals, both within and without the [South African social movements], are critical in the sense that through their analysis they were able to expand these movements's strategic choices about what it is that they could do in the struggle for liberation and justice, Moses Ngoasheng summarises the historical contribution made by the progressive academics to organisations such as the ANC as follows:

'Up until the late 1980s progressive intellectuals concentrated on a critique of the apartheid system — a critique which demonstrated the impossibility of reforming the system — and thus the need to radically transform it'.

Thus, with the unbanning of the ANC and the beginning of negotiations, most analysts observed that a shift from research aimed at empowering the movement's day-to-day struggles towards policy work became to gain momentum. The changed conditions demanded that the intellectuals energies of the movement be directed towards generating practical and workable policy options. In line with these changes, the ANC hoped to utilise the already existing machinery in a manner that could clearly be located within the theory of conceiving social structures as networks. As argues Knoke (1993:164), the central premise of the network

perspective is its conceptualisation of social structure as an enduring pattern of relationship among social actors. The basic elements of this perspective are:

1. Social Actors — units of individuals, groups, formal organisations, or other collectivities.
2. Relationships — from which connections are made between social actors or a joint activity is taken.

What emerged from the interviews is that by the late 1980s and early 1990s, the ANC's research capacity was very weak and there was no way in which the organisation could be able to concretise on some of its policy statements to counteract the policies of both the business and the NP. One of the respondents alluded to this point when stressing that:

'So, the role of the researchers was basically to support the political organisations because they didn't have the research capacity. They didn't have the people with skills and the ANC's DEP was a small group... the point is that it was recommended that people are needed to some very careful in-depth technical research to be the basis for policy formulation, and the people in the ANC or COSATU couldn't do that, they didn't have the training'¹⁰

Fundamentally, 'progressive academics' remained central actors in the MERG policy process. In contrast to the NP's strategy of drawing from the expertise of right-wing academics from historically Afrikaans-speaking universities, the MERG drew them from Historically Black Universities of Western Cape, Durban-Westville, Fort Hare, and the University of the North (Padayachee, 1995:59). However, since the process of policy making also involves accessibility to resources (in both human and physical - geographical locations and otherwise), the English-speaking universities, usually defined as those privileged, took the lead of the process. In scanning the list of those universities and individuals that were taking part in the process (see Appendix E), the author observed that in fact, these Historically-Black Universities were underrepresented¹¹.

The utilisation of academic researchers by the ANC in the policy making process raises quite interesting questions about the centre stage occupied by institutions of higher learning for driving social change. Despite the paradoxical nature of this involvement of academic researchers in processes of policy making, the decision to do this by both the ANC and the IDRC Mission Team was intuitively informed by the underdeveloped research capacity of the ANC's economic think-tanks in particular and generally, of the

South African society. Despite the fact that the MERG coordinators discovered that in comparison to the democratic movement, the (apartheid) state alone admits to be spending about 500 million rand on research (van Ameringen, 1995:15), it is however indicative to highlight that in comparison to other countries, this country's research and development (R&D) spending had been reduced significantly in the past few years.

3.3.2. Foreign Economic Policy Experts As Actors

Policy is not only about authorised decision-making, it is also about problem-solving and this constitute another basis for participation: having expertise that is relevant to the problem (Colebatch, 1998:20). In her analysis of the participation of experts in policy-making processes, Walt (1994) notes that in some countries, the advisers are foreigners. She indicates that in Africa alone, during the 1980s some 100, 000 donor-funded expatriate advisers worked in the public sectors of forty countries at a cost of US\$4 billion (1994:89). In fact, the practice of utilising foreign experts appears to be the central feature of the modern society's economic policy making processes.

In his analysis of why countries such as Britain used foreign agents as actors in the process of economic policy-making, Levacic (1987:33) argues that as an open economy, Britain is inextricably linked to the world economy and, as a member of the European Community, it is increasingly subject to policies which strive for economic and political integration. Moreover, since economic policy processes and choices vary from one context to another, the British case might not be applicable to other countries.

However, there is one indispensable motive for using foreign experts in the process of policymaking which could be claimed to be universally recognised. That is, foreign experts can either be preferred because of the assumption that they may provide an objectively non-partisan view or data in their weighing of competing policy choices or because of their valuable international experience they may bring to a particular country's economic policy process. These two possible contribution are not necessarily mutually exclusive. In fact, in most instances they may be combined to constitute one preference.

During the MERG process, the ANC drew in some top international economists, including American Lance Taylor and Bill Gibson. These experts were contracted for lengthy periods to train (or support) South African researchers, especially in areas such as macro-economic modelling, where South African expertise

was deficient (Padayachee, 1998:438). In fact, prior to the launch of the MERG project, the ANC had already started to interact with some of the foreign experts. For instance, Matisonn (1998) indicates that in April 1992 about 40 members of the ANC, led by Trevor Manuel, Tito Mboweni and Maria Ramos of the DEP trooped from Shell House to the shabby Holiday Inn on Devilliers Street in Johannesburg for a workshop that had invited two foreign economic policy experts, Lance Taylor and Ben Fine.

Lance Taylor was to speak about macroeconomic policy - about how government spending are limited by a drop in foreign currency reserves, by high interest rates, by how much they cause inflation, or by a negative balance of payments. Ben Fine was focusing on the role of the market versus the state. Capturing the mood of the workshop, Matisonn (1998) observed that Lance Taylor's input never drew any significant interest amongst the audience, except that it was only Mandela who asked only one question.

By contrast, Fine's discussion went on for long hours. Essentially, this exposed the fact that most ANC leaders by then were still espousing the entrenchment of state intervention in the economy hence Fine's argument was for a strong state role in production to achieve desirable goals that the market would not achieve (Matisonn, 1998). Nevertheless, the point being illustrated here is that the ANC always recognised the imperative of involving international economic policy experts in its search for appropriate policies of a post-apartheid country.

One significant point to note is that most of these experts served as some sort of 'reference group' or 'control' group through which the quality of work generated by MERG researchers was to be scrutinised. This in itself reflected an aspect of power dynamic between local actors and foreign actors in which the former was subordinated to the latter (see **Appendix D**).

The other strand of foreign actors included those countries that funded the MERG process. This has proved to be one of the interesting aspects to factor in during the interviews. The peculiarity of the South African situation complicates an attempt to appropriately conceptualise these foreign governments as actors in the policy making process. Two interrelated observations may be cited to explain this complicated situation.

Firstly, as indicated earlier on, is the fact that during the MERG process there was an existence of 'dual power' in South Africa. This gives rise to a theoretical problem with regard to the aspect of 'agenda setter' in the policy process. Indeed the MERG process was not aimed at developing macroeconomic policy for the ANC, but for the whole country. Meanwhile, the ANC was by then not a ruling party. The NP was still in power and it was certainly busy with implementing certain policies on the one hand, while on the other hand it was also involved in other processes parallel to MERG to influence the process of reforms from apartheid to democracy.

Given this situation, it could thus be argued that while the ANC remained the 'agenda setter' of the MERG process, the NP was also an 'agenda setter' of other processes outside MERG. Between these two, came all other external actors in the form of the media and the local and foreign business sector and international finance institutions which were also divided in accordance of the existing dual power. The complexities brought by the existed dualism is that the South African policy process during the time of MERG became much more contested.

The second observation is much more of a theoretical conception of the policy actors. The existence of 'dual power' in the period of MERG warrants a reconsideration of the definition of what has so far been identified as 'interest groups'. The immediate question that comes to mind is: between the ANC and the NP (with the former preparing to rule while the latter preparing itself to go out of power), which one could be classified as an 'interest group' in the policy-making process?

The last section of the Chapter on Literature Review concludes with a section on conceptualising the policy. It is being argued that traditionally, most policy analysts viewed and defined economic policy as the use of government as a mechanism for allocating and distributing resources — the government seen here as setting the legal framework within which the process of both policy-making and implementation takes place. From this definition, as discovered by Levacic (1987:26), economic policy is assumed to be made by governments, and hence by the politicians and officials who operate the machinery of government. While this conception has been both the norm and practice in most authoritarian regimes, it has not been the case in most liberal democracies. The latter systems appear to decentralise the process from being the monopoly of government to include interests groups.

Taking into consideration the definition of interests groups as provided by Walt (1994), the theoretical problematic with regard to the South African setting is that the process of policy making was taking place in an era of transition. This transition meant that the then ruling party, the NP, has to loose its identity as a party representing government and by virtue of that, even the identity as 'agenda-setter' of the policy process¹². For instance, the *Normative Economic Model* (NEM) of the NP was one such process of attempting to shape the transition. One interesting point which clearly illustrates that the process was heavily contested even outside MERG is that the MERG itself took as its premise the criticisms of the NP's NEM.

The other instance is when other external actors such as the IMF also produced their own researched policy document with an objective of influencing the South African policy -making situation. Moreover, some of the respondents provided mixed feelings about the impact of both the IMF and the World Bank during the MERG process. For an example, some of them responded by indicating that the IMF did not really affect the MERG directly but that it was the NP that was moving quickly to accommodate it:

"The IMF didn't affect the MERG but the environment in which the MERG operated — the loan that this country received in late 1993 were part of what we call the 'Washington Consensus'¹³

Interviewees like Allan Hirsh, Stephen Gelb, Vishnu Padayachee and one anonymous person even went to the extent of making a clear cut distinction between the IMF and the World Bank's influences on the South African policy making process. They all agree that the ANC did have a closer valuable interrelationship with the Bank than with the IMF.

For instance, Allan Hirsh maintained:

"I don't think the IMF's *Economic Policies for a New South Africa* had any significant impact. The IMF has a very simplistic formulation of macroeconomic policy, especially about Trade and Industrial policy. I think that the argument about savings and investments is that the document was saying that investment and savings were the real problems in South Africa. That in order to grow sufficiently and rapidly the proportion of national income devoted to investment rather than expenditure should go up very significantly. I think these figures were taken quite seriously but I don't think it was taken as an overall view. It was very much a simplistic argument!"¹⁴

While it is arguable that the IMF never had any influence to the MERG researchers — hence the report's proposals shows a direct contrast to policies favoured by the former — it did however make its presence to be felt and indeed accepted by other actors outside MERG¹⁵. The liberal newspapers and magazines stimulated the significance of these institutions by giving them a widely coverage and reportage. The *Financial Mail* (February 14, 1992, p.25), for an example, went out in its coverage of the Davos economic summit which Mandela attended and the IMF's document by saying that:

'Attendance by last week's Davos summit seems to be an enlightening experience for ANC President Nelson Mandela and it is to be hoped that he will now be able to disillusion some of his still starry-eyed Marxist colleagues back home, perhaps fortified by the IMF's Economic Policies for a New South Africa...'

And went further to argue that

'The IMF's message is blunt: redistributing wealth through increased taxes could wreck growth prospects and income inequality should rather be addressed through better training and employment opportunities for blacks... These are, of course, very much the policies the *Financial Mail* has advocated'

Thus, despite the fact that the IMF and the World Bank were not actual participants during the MERG process, their interaction with the ANC's leadership, both within and outside South Africa meant that the policy work that was being done by the MERG researchers was to be affected.

3.3.3. The ANC's DEP and its aligned partners in the form of COSATU and SANCO

Both the ANC and its aligned democratic organisations in the form of COSATU and SANCO were seen as chief beneficiaries or targets of the MERG. The SACP was in this instance represented under the aegis of the Tripartite alliance between itself, the ANC and COSATU. For purposes of analysis, the democratic movement will hereby be treated as constituting one actor under the umbrella body of the ANC. Moreover, it is basically the ANC's newly found DEP by then which appeared to be a springboard through which all these other partners conveyed their respective interests.

Moreover, as will be evident in the next section, this does not overrule the fact that there has been some policy differences between the ANC and these partners. It has been argued that by the time of MERG the

ANC's DEP, which was by then the only emerging structure that was to focus on economic policy, was very weak and inefficient. Its responsibilities included briefing ANC leaders on economic affairs; liaison with trade unions, business, and the international community; promoting awareness and participation of ANC members in economic policy formulation through the regional associations; training of ANC cadres in economic affairs; co-ordination of economic research in agencies outside the ANC; establishment of an institute of economic policy research and training that would serve the democratic movement and gathering and processing economic intelligence (van Ameringen, 1995:8).

Yet, it should also be recalled that the ANC's DEP was much more focused on empowering the organisation's leadership at the Kempton Park negotiations.

However, the above outlined enormous tasks and challenges which awaited the DEP, coupled with the fact that its staff were undertrained, should not lead one to claim that the ANC was not an active actor in the process. Indeed, despite the fact that one of the technical reasons which made MERG to be constituted of academics has been that the ANC's DEP was very busy in such a way that they couldn't have time to do the research work. Moreover, the fact that the MERG project was initiated by the ANC should not be politically underestimated.

In his examination of who makes policy, Levacic (1987) provides the following conception which could be used for understanding the ANC as an actor in the MERG process.

'Policy-making is usefully seen as a process occurring over time, into which are fed inputs in the form of decisions and actions by individuals and groups. These operate within institutions and are constrained by rules and procedures. the inputs combine to produce policy outcomes with discernible effects. Crucial questions are whose preferences influence policy outcomes, to what extent, and with what effect'

(1987:26)

In essence, the above conception denotes that during the policy process, whether carried out by academics or being under the influence of foreign policy experts, there will always be certain established parameters and clearly defined goals upon which the whole process should be directed to achieve. The ANC's DEP was thus one central actor from which procedures and rules, designed in accordance with its interests as a political organisation preparing to lead the country, were laid as a framework for the MERG researchers.

Beginning with the establishment of the Mission Team, the ANC remained the key stakeholder in MERG. This became clear when it only gained the power for recruiting academics from various universities for MERG research projects. For instance, some of the respondents indicated that they were approached on the basis of their historical relationship with the ANC-led democratic movement. Most of these academic researchers had been involved in one way or the other, with COSATU's research projects (the ISP and the Economic Trends research groups).

3.3.4. Other Actors Outside MERG

Though this Chapter is concerned about policy actors within MERG, it is important to look at other actors outside this two macroeconomic policy frameworks. This is because the occupation of shaping and influencing the process of reforms in South Africa, especially in the area of economics, was not the sole domain of the ANC-led democratic movement. There were other actors who were not participating in MERG, but which were also carrying their own parallel economic policy analysis in an attempt to influence the policy choices of the emerging new state. Furthermore, the ANC found it hard to restrict itself from interacting with these outside-MERG structures and organised interests.

Thus, apart from the IMF and the World Bank as it has already indicated above, one notable actor was the South African business sector.

One danger which is apparently visible amongst South African economic policy analysts is the tendency to undermine the central stage that the business sector occupies in the economic policy debates. Beginning in the mid-1980s, this sector embarked on a series of scenario planning exercises which were to become the stepping stone for future policies in this country. Yet, some key influential policy critics deny the significant inputs of these scenario exercises. While it was being acknowledged that the ANC's interaction with business generated all sorts of influences on each other, the ultimate implications thereof is usually not being taken serious. For instance, when asked about the significance of these scenario planning in the making of the South Africa economic policy, Stephen Gelb responded by saying:

'Well, don't put too much emphasis on the business's scenario planning because that was very much small part of what was going on... I know some people write about them as if they were the only things

happening. The scenario planning was just another one of these events, you know, during 1990/91/92 there were dozens and dozens of conferences going on within the country. So you will be there as somebody' who is seen to be close to the ANC... few months later there will be a meeting between the ANC and insurance companies and a bunch of us will be asked by the ANC to come and give papers'¹⁶

A more cynical view about the significant impact of these scenario planning exercises from outside MERG in the policy making process was provided by Allan Hirsh who claims during the interviews that their independence from the broad democratic movement's policy making process was limited because some of them were even organised and initiated by the ANC. He claims:

....some of the scenario planning exercises were driven by the ANC. The Mount Fleur scenario process was an ANC process. It was fundamentally an ANC process and it was driven by Pieter le Roux who was the member of the ANC and who was closer to Trevor Manuel and Tito Mboweni at the time they were very influential but if you go back to the staff that came out of that it was very much to the left of the position of business it was quite a general process where they brought in international experts, people like Bruce Scott from Harvard I will say that to a greater extent many of the policy proposals that came out of that scenario was more radical than it was actually imagined in government'¹⁷

Yet, Patrick Bond (1998) and (1999) contends that these scenario planning exercises entrenched the business sector as one of the key actors any serious policy analyst should recognise. Though some of these scenarios' implications came to be recognised in the post- 1 994 period, the ANC's interaction with business during the time of MERG contributed to the former's changing positions with regard to its traditional economic policy aspirations. These implications will be discussed in detail in the succeeding chapters.

3.4. *PROCESSES LEADING TO THE DISAPPEARANCE OF MERG*

So far, most analysts who focus on the ANC's economic policy shifts have concentrated on various substantive aspects of the organisation's policy documents. In cases where attempts are being made to explain these shifts, a 'refuge' is always found by romanticising the coincidence of this country's transition with the process of globalisation that is underpinned by the perceived hegemony of neo-liberalism. While it

is not being denied that these shifts can be explained through the impact of external forces to both the ANC as organisation and to the broader South African setting, there is a need to equally add the consequential implications of some of the ANC's internal dynamics and its handling of the economic policy processes to our equation.

Inasmuch as it has been argued that the crisis and the ultimate 'disappearance' of the welfare state cannot be exclusively explained through an emphasis which gives external factors supremacy over internal ones, the same could be argued for explaining the disappearance of Keynesian thinking within the ANC as it was once proposed by the MERG report. An exploration of the interaction by different actors during the MERG process will be an appropriate step in offering such an explanation.

Walt (1994)'s analysis holds that the policy process is neither sequential nor linear, but a complex interactive process in which different actors influence , and get influenced, by each other through complicated processes of power relations. Premising from this framework, the 'rejection of the MERG report in late 1993 by the ANC and its subsequent disappearance from the economic policy debates since 1994 will be explained in this subsection.

In his 'afterword' contribution to an evaluation of the MERG process, Padayachee (1995) reflects on some of the central problems being experienced during the process. These include the difficulty of sustaining a consistent and well-defined relationship between universities, intellectuals and political movements in South Africa; organisational and administrative difficulties within MERG and the ANC's DEP; tensions between MERG and DEP on the hand and on the other, between the two and the research leaders. He also touches on the role of international experts which the thesis found very interesting, especially with regard to the final outcomes of the report and the ANC's attitudes towards them.

Obviously, given the fact that Padayachee himself was one of the participating researchers during MERG, his reflections, though grounded in first-hand experience, could not be claimed to represent a neutral account of the process. Nevertheless, through the interaction that was made during the process of data collection with some of the participants, Padayachee's reflections have been confirmed, though not *in toto*.

In the same way as Hobsbawm (1995) describes the structures of the 'Short Twentieth Century' as a sort of triptych or historical sandwich, the same could be said about MERG. The MERG report occurred between two ideologically contradicting policy frameworks of the ANC which have so far drawn an extreme attention from various political economists around the world. On the one angle we had the Freedom Charter which was, from both within and outside the ANC, seen as a policy statement with serious socialist undertones. On the other angle, is the present GEAR strategy which premises from a neo-liberal framework.

Thus, the significance of the MERG report in between these two frameworks lies in the fact that it proposed for a possibility of a middle way' towards sustainable economic growth and for addressing the legacy of apartheid. How does one begin to explain the disappearance of this 'middle way' proposal by MERG? Indeed, there are multiplicity of factors that contributed to the process of abandoning the MERG report by the ANC. Given both the scope and lifespan of this thesis, an account of this will be limited to the following areas of conflicts, problems and dynamics of power relations during the process. These, of course, have been selected to illustrate that the policy process is about power and conflict.

- a. Academics as Policy Researchers and Political Expectations of the ANC.
- b. The Implications of the Changing Character of the ANC on MERG.
- c. Structural Problems and Conflicts over the Control of the Process: The Difficulty of 'Agenda-Setting', Co-ordination and Administration

These identified areas of problems or features that came to characterise the MERG process should not be understood as being isolated from each. They are intrinsically interrelated and the way in which they manifested themselves during the process makes it difficult for any analysis to treat them as separate from each other.

3.4.1. Academic as Policy Researchers and the ANC's Political Expectations of MERG

The so-called 'progressive academics' have been identified as key actors during the MERG process. Moreover, their role as academic researchers and how they had to relate with the ANC, as a political organisation to be targeted by MERG, generated a series of ambiguities and difficulties. At the same time, MERG's decision to concentrate on two major objectives, which respondents such as Merton Dagut¹⁸ described as 'equal but contradictory' objectives — policy formulation and training — created many tensions (Padayachee, 1995:70).

Interestingly, this problem was anticipated by the IDRC Mission Team right from the beginning when noting that:

'We should be caution, however, that the use of the research process for training purposes may delay delivery of output and hence constrain time-sensitive assignments. Nevertheless, in terms of post-formal training through learning by doing, hardly any other modalities exist (IDRC, 1991:32)

Yet, it became evident during the process that the complexities of the relationship between academics and the ANC and their subsequent implications to the overall objectives of the MERG report was being underestimated and overlooked. As indicated above, this was because most of these researchers were recruited on the basis of their involvement in various institutions and organisations of the MDM during the time while the ANC was in exile. With MERG, some of these academics viewed their participation as something of an 'honour' for being invited to contribute something tangible for the ANC as a 'government-in-waiting' organisation. They saw this as an opportunity to establish themselves as 'progressive academics' and some even interpreted this as an 'ANC academic policy grouping'. One respondent claimed:

'I think all the researchers saw themselves as ANC members, of course the idea of MERG having to be independent from the ANC was there. But as academics who have been involved in one way or the other with the democratic movement...and who have specialised in different areas of research, we saw ourselves as the best placed assets of the organisation. We were well-equipped to counteract both the position of the NP in the form of NEM and some of the arguments posed by the business sector against the ANC'¹⁹

Yet, despite the fact that the unbanning of the ANC and the subsequent establishment of MERG 'represented the most fruitful period of co-operation and mutual respect between the democratic movement and progressive academic economists' (Padayachee, 1995:64), the MERG exposed lack of understanding the importance of policy work amongst these progressive academics. At the same time, this lack of understanding about what was really expected from them made the ANC to question, though in cautious manner, their level of commitment to the organisation.

In fact, as Harry Zarenda indicated during the interviews, 'MERG was viewed with a bit of suspicion by the ANC's DEP' because questions of academics having to subscribe to their 'intellectual autonomy' were constantly being raised by some of the researchers when deliberating on certain methodological issues. This created an ambiguous relationship of intellectuals towards power in the policy process, an issue which was widely debated from early 1990s in South Africa.

Moreover, it is quite significant to point out that there are clear cut sides of prognosis from which this problem can be adequately conceptualised. Adler *et al* (1998) provides an insightful analysis of the relationship between independent research NGOs like NALEDI and their targeted labour organisations. While their analysis is specifically focusing on what could be may 'labour servicing organisations', it is however relevant and applicable for examining the MERG situation. They contend that:

'The starting point of our research is fundamentally political: to contribute to changing society. It is therefore concerned with questions of power. This principle allowed us to differentiate what we do from much of the work conducted by people in academic environments. We do not conduct research for its own sake, or for advancing the boundaries of knowledge in a particular discipline. Our work may have these outcomes, but they are not the reason why it is done' (1998:60)

Friedman (1995:5) also argues a similar point when contending that 'the belief that the researcher can help obviously implies a judgement that the researcher shares the policy-maker's view of the world and the policy-makers will therefore choose those researchers who are close to them politically and with whom they share common goals'. Indeed, the ANC's political expectations were based on this conception. The ANC's DEP sought to resolve the issue of its incapacity to provide an in-depth analysis by farming out to outside researchers - that is, to its associate members and sympathetic economists located in other institutions (Ngoasheng, 1992:118).

Moreover, the MERG found it quite challenging to balance the twin desires of building research capacity and at the same time having to provide a tangible macroeconomic framework for the ANC. In fact, it was later on discovered that the former desire disadvantaged the latter. In that case, then, the MERG became a contradictory institution. 'By itself with these two (MERG researchers and ANC's DEP) not having clearly identified their respective relations and expectations. One respondent stressed this point when alluding that:

'There was a sense of intellectual niceties and experiments and this contributed to the lack of coherence in putting everything together. The reason is that it has not been easy to cope with the difference of having spent life in academia and then called upon to work with matters of deciding policy'²⁰

This 'dilemma' was succinctly illustrated by Alec Erwin, the Ministry of Trade and Industry who was by then the education officer of NUMSA in his talk to the Symposium on the Role of Research in Transformation in South Africa. Arguing that 'it is more difficult to separate the research agenda from political commitment or inclination than it is to separate the research method from political commitment', Erwin emphasised that 'research and intellectuals in general oscillate between two powerful imperatives — one when research is able to lead events or one when it follows events in the sense of responsibility to research requests' (1992:4).

In the context of MERG, the above dilemma became to be intensified. The ANC wanted to provide a framework for contracted academic economists. But at the same time, the process itself wanted quite technical skills. This created a sense of paradoxical forms of power relations between the two which became hard to reconcile. Sensing that the MERG local researchers were not well equipped to work within the matrix of its political expectations, the ANC, as Merton Dagut indicated:

'...thought that one of the appropriate steps was to bring to South Africa a group of about 30 very serious technical economists to us (local researchers)... reflecting the political choices of our political partners. We spent several days here at Wits University talking about the nature of macroeconomic policy. In the end, the essence of the problem became evident... some of those researchers were beginning to lean towards the "Washington Consensus"²¹

The above points clearly illustrate that the pemicious question became that of who, in the final analysis, should drive the MERG process. In principle, of course, it was 'theoretically' concurred that 'MERG will

provide resources to various researchers who will then provide reports which will then help to contribute to policy formulation by the ANC²². However, attempts to draw in some of the skills variations needed to realise these goals constituted a daunting and at times a frustrating phenomenon. The ANC, as Jeremy Cronin sincerely emphasised during the interviews, 'was having quite extensive political skills to provide a political direction for MERG researchers ... but this was inhibited to a greater extent by the organisation's lack of sophisticated economic analytical skills which, ironically, were under the command of contracted academics²³. Interestingly, the academic researchers themselves were lacking, or assumed to lack, the political skills which were under the command of the ANC.

What was needed then, was a form of reciprocal skills exchange between these two actors for taking the policy process forward in a way that each of them will be satisfied. However, since the policy process denotes that 'an actor's interests in a series of domain events vary according to the stakes it believes to be at risk in the outcome of each specific collective' (Knoke, 1993:170), neither the ANC nor the MERG researchers have been able to tap out their available potentialities in the interests of the whole process. Moreover, the findings of the thesis point out that this clash of methodological interests over MERG remained unresolved throughout the process and as the succeeding sections demonstrates, this served as one of the central factors which gave the ANC the lever to reject the MERG's final report²⁴.

3.4.2. The Implications of the Changing Nature of the ANC on MERG

Most respondents kept on stressing that the disappearance of MERG from the South African economic policy debates should be explained with reference to the changes undergone by the ANC in the late 1980s and early 1990s. These changes include both the coming in of the new leadership and those relating to the drastic ideological re-orientation undergone by some of the organisation's leadership. Coupled to these two, the ANC was also confronted with the challenge of creating 'harmonious' relations between its leadership 'brewed in exile'²⁵ — to use a phrase coined by one confidential respondent - with the internal leadership of the MDM.

However, before one can venture into this aspect, there is a rider that has to be made when conceptualising both the ANC as an organisation and its leadership on the one hand, and on the other hand, of the MERG researchers. Indeed, most analysts have cautioned on conceptualising the ANC as a monolithic

organisation. Padayachee (1995:66) has driven this point home when alerting that 'in assessing the difficult relationship between the MERG administrators and the ANC's DEP, one must be careful to avoid portraying the picture of each as a monolithic structure of ideas, values, and organisational styles that were sharply different, one from the other'. He went further to point out that there had been rapid changes in research personnel and leadership on both sides over the two years of MERG's existence and that the DEP experienced a rather dramatic (and unexpected) change in its leadership after the ANC's National Executive Committee and National Working Committee were elected in late 1991.

A clear picture has been drawn by Jeremy Cronin during the interviews when he pointed out that in analysing the economic policy process within the ANC, 'it is important for one to first note that there are several differences, currents, statuses coming out of different experiences'²⁶. Amongst others, he identified four broad ones. The first one is that of the senior leadership composing of Mandela himself and Thabo Mbeki. From there follows a cluster of people who historically come out of the trade union movement. In this cluster, argues Cronin, would be individuals like Alec Erwin, but surrounded by academics and trade unionists who have been active in labour market, trade policy and so on — 'people like Allan Hirsh, David Kaplan, Stephen Gelb and a lot of others who come out of trade union academic type of network research like the ISP'.

The third one is a group of people who were historically in exile, and who were economists who studied economics in exile and interface less with the local economists and more with London-based economists. In this category, Cronin pointed out that he specifically refers to people like Tito Mboweni, Laurence Harris, Ben Fine, Vella Pillay and others.

In a very sensitive mood -- glaring at all corners of his office as if someone 'unwanted' might approach to interrupt our conversation -- Cronin added that the last cluster constitutes those individuals he almost describes as 'new comers': people like Trevor Manuel. He stressed '...Trevor does not quite correspond with any of the already mentioned three categories, but he has been an activist who during the state of emergency got the job and in the early 1990s also become active in the ANC's DEP'.

All these clusters within the ANC had a significant bearing on the MERG process because they tended to represent what Walt (1994)'s analysis of policy process describes as the 'policy communities'. For Walt

(1994:112), 'policy communities' are networks of individuals from various institutions, disciplines or professions, researchers or commentators [who provide] a number of different fora in which the early stages of opinion formation and consensus building among experts takes place'. Significantly, Walt indicates that 'political change, especially where wrought through democratic means, can open up the policy environment... new faces are brought in, new ideas are given credence, new coalitions of interests are formed (1994:206).

In his reflection about the context within which MERG emerged, Padayachee (1995:64) recalls that it was a time when a spirit of togetherness, common purpose, and solidarity characterised the relationship and that new ideas were welcome and progressive academics (from all disciplines and centres) were courted and paraded around proudly. However, he went further to argue that this honeymoon appears to have ended in mid-1993 when policies had to be finalised and plans for their implementation settled; a political campaign had to be fought; and new allies had to be sought and appeased.

It has been indicated that the MERG premised from what has been characterised as Cambridge or post-Keynesian approach (Michie and Padayachee, 1997; Padayachee, 1998). To a greater extent, it might be argued that this approach was dominant within the ANC during the establishment of MERG. This was after the organisation worked its finalisation of abandoning some of the perceived 'socialist undertones' of the Freedom Charter.

In his commentary, John Matisonn (1998) captures this point when recalling that by [then] most ANC economists were Keynesians, meaning that they believed in some government intervention to achieve social goals. He summarises that within the ANC experts' debates, the main ideological question was between traditional Keynesians and 'open' Keynesians. The former believe that in keeping the economy isolated through foreign exchange controls, for an example, so that the government retained its freedom to act decisively internally. The latter agree that government must intervene to achieve certain goals internally, including job creation and social service, but they argue that globalisation has removed the ability to isolate an economy in the way it could be in the days when Keynes was writing his *General Theory of Employment*.

The MERG researchers, though they also have some differences amongst themselves, nevertheless saw their role as that of offering a concretised report that will clearly reconcile the above economic policy debates. Moreover, this does not mean that the ANC's economic position in the final analysis rested with and relied on the MERG process. Yet, the most outstanding feature of the process, included being some of the research output deliberations, was that the researchers were 'struggling' to accommodate as much as possible the aspirations of the ANC's constituencies and the interests of the poor in general.

Now, the implications of the changing nature of the ANC on the policy process was greatly felt from two fronts. The first immediate one is when the organisation failed to reach a clear cut consensus of providing a coherent framework from which the researchers had to locate their respective contributions. Analytically, this was left for MERG to resolve and subsequently led to a series of ideological conflict within MERG — the irony here is that by its nature, purpose and intent, MERG was not supposed to be an arena of ideological conflict hence its duty, from an observational point of view, was to 'iron out' some of the 'hard-to-resolve' technical questions pertaining to an already developed economic vision of the ANC²⁷.

On the second front, the problem was exacerbated by some of the ANC leadership's ambivalent public utterance in responding to some of the curious questions posed by the media on the one hand, and on the other hand by the business sector. At the same time when the MERG researchers were busy trying to find some convincing alternatives to the then NP's proposed NEM policy, some of the ANC leaders were also busy propagating a different tune to the public. A number of incidences can be quoted to illustrate this point.

For an example, Howard Preeze (1992:2) discusses indications of the continuing ambivalence of the ANC with regard to nationalisation in relation to Mandela's speech in early 1992 to the World Economic Forum in Davos, Switzerland (Lazar, 1994:348). The draft of the speech, written for Mandela and circulated in advance contained hardline sentiments about 'a tiny clique controlling five giant conglomerates', the failure of banks and enterprises to invest profits, and the possibility of selecting enterprises on a case by case basis for nationalisation. In the event, Mandela omitted these passages and shortly afterwards, he spoke in Cape Town to an audience of leading industrialists that the ANC would have to persuade its followers that nationalisation would discourage investment and that it is not a solution to South Africa's economic difficulties (Lazar, 1994:348).

By 'persuading its followers', Mandela was possibly referring to the ANC's alliance partners, COSATU and the SACP. The positions of these two organisations ever since the mid- 1980s when the ANC began to focus on economic policy discussions remain that of '*growth through redistribution*'. This fact has been captured by Padayachee (1995) when noting that 'although the ANC used every opportunity to down play nationalisation, COSATU, especially some of its affiliates, still retained this policy as an important option'.

He further points out that huge differences existed, even within the ANC itself, about the degree to which the South African Reserve Bank should be independent. In a statement to the press, dated 3 December 1993, SANCO's Moses Mayekiso noted:

'The MERG recommendation for a nationalised Reserve Bank is by no means out of step with international thinking. From my own dealings with the banking industry, I certainly believe that the most powerful bank in our country, with responsibility for monetary policy and exchange controls, must be controlled by the government of the people, not by an anonymous crowd of money mandarins'

(quoted in Padayachee, 1995:68-69)

Conversely, consider the following response by Tito Mboweni to a question posed to him by Sacob's Director General, Raymond Parsons in the Financial Mail Board of Economists' discussion: about how will a future democratic government be able to resist populist pressure of a kind which may harm the economy and business confidence:

'The issue should not be about a democratic government resisting popular demands, but how effectively can a democratic government put in place a programme which progressively and visibly satisfies some of the basic aspirations of the people, within the confines of market economy balances and avoiding high and persistent budget deficits (Financial Mail, 1 December 4, 1992)

Even some of the ANC leaders who have been the least active participants in some of the national debates about economic policy, let alone in some of the social and political issues, were being pruned by the mainstream media to denounce some of the Keynesian thinking that was central to MERG researchers. Take for instance the account by Albie Sachs as covered in length by the *Financial Mail* during its 'Investment Conference' held in the first week of November 1992:

'I have believed in many things in my life and I have been very wrong. Certainly in relation to economic questions and the role of planning. I did not learn that because of what I read in any of your newspapers or because of Eastern Europe. I learnt that from my own experience in Mozambique. I remember some friends of mine saying to me, 'Albie, we are going to produce shoes. And they are not going to be fashion shoes, but sturdy shoes for the masses, involving no waste whatsoever'. The problem was that the masses did not like sturdy shoes made for them, they wanted choice. They wanted sturdy shoes, but they wanted the right to choose sturdy shoes. That pointed out to me that governments are not good at making shoes. They are not good at producing goods cheaply, efficiently, attractively. Let government keep out of that'

Meanwhile, COSATU was also coming out strongly against any possibility of concurring with the ANC leaders' sudden adoption of 'pragmatism' in their engagement with actors external to both the MERG and the broad democratic alliance. For instance, in 1991 while the IDRC Mission Team was busy identifying issues that had to be taken by the MERG, the IMF was invited by the then apartheid government to visit South Africa. Unexpectedly, the government invited COSATU to be part of that meeting.

In what *The Weekly Mail* (July 26-August 1, 1992:12) reported as a step signalling the federation's deep suspicion of the international financial institutions, COSATU rejected the invitation. According to COSATU's Neil Coleman, the federation had turned down the government's invitation because COSATU is an independent organisation which should be approached independently by the IMF'. Moreover, a more political response was echoed by COSATU's general secretary, by then Jay Naidoo, who indicated that 'if the activities of the IMF and the World Bank in other countries are any indication, their proposals will not meet our people's needs and will hit the working class in particular (*The Weekly Mail* (July 26-August 1, 1992:12).

Indeed, most of the MERG researchers did share COSATU's views on the role of the IMF and the World Bank in South Africa. However, the divisions and ideological conflicts within the ANC itself weakened the base from which a sustainable campaign against the emerging free-market policies can be embarked upon.

A clear comprehension of how the above cited incidences manifested themselves during the MERG process is provided in the section below which look at how the MERG was contested and at times in a beleaguering manner.

3.4.3. Structural Problems and Conflicts over the Control of the Process: The Difficulty of 'Agenda-Setting', Co-ordination and Administration

Any process of policy making has to focus on a specific agenda. Yet the exercise of deciding on a policy agenda is always being accompanied by lack of agreement between policy makers. This is because what might be seen as a problem by one policy analyst might not be the case with other policy analysts or policy makers. How do policy makers identify what constitute a 'problem' that need to be addressed through policy? How do they begin to know that a particular item constitute a matter of policy? Broadly, how do we explain why some issues get taken up and placed on the policy agenda by policy makers, whereas others are left at the way side? (Walt, 1994:8)

Following Hall *et al* (1975), Walt (1994:54) highlights that the process of identifying and setting up the policy agenda involves three concepts: legitimacy, feasibility and support. Legitimacy refers to those issues with which policy makers feel that they should be concerned with and that these issues may be conceived as those that represent the feeling of most people. In other words, those issues that do fall within what is sociologically referred to as 'social or public issue'.

Feasibility refers to the potential for implementing the policy; it is defined by prevailing technical and theoretical knowledge, financial and other resources, availability of skilled personnel, capability of administrative structures, and existence of necessary infrastructure (Walt, 1994:5455). Support refers simply to trust-building in the process of policy making. The thesis's analysis of the MERG report points out that neither of these three prerequisites were taken into account.

Indeed, as indicated above, there was a conflict between local researchers and external researchers on the one hand, and between the latter and the ANC's DEP on the other hand with regard to what should be the key focus of MERG. While the external researchers were convinced that redistributive policies should be given first priority in terms of setting the 'policy agenda' for MERG, the local researchers, primarily those who were already showing signs of being inclined to the notion of the 'Washington Consensus', together with some of the ANC's DEP members, felt that policies aimed at 'trade competitiveness' and the involvement of the business sector through encouragement of foreign investments should be on top of the policy agenda. As a result of these differences, the MERG lacked direction and subsequently became what

one of its former 'full-time' financial administrator calls a 'loose Non-governmental organisation which lacked a systematic vision of accountability'²⁸. At the level of financial resources, MERG was well resourced. Besides the IDRC, which was the main funder, MERG also received some funding from countries such as Australia, the Dutch, the USA, Britain, Germany and the Swiss. Though it has been difficult to find out how much did the MERG receive and spend, there has been some indication that 'some researchers have viewed MERG as an opportunity for making some extra income out of their technical research skills'²⁹.

During the interview, Allan Hirsh conceded that there was a lot of mismanagement during the MERG and also claimed that the ANC might have decided to reject the MERG report because it wanted to distance itself from 'all these financial irregularities'³⁰. He indicated that:

'the other problem was that of mismanagement in the MERG. I have just heard by chance...I have met some funders the other day and I have just heard that they are still trying to clear up the MERG mess because there was a lack of control with the funding and lack of proper audit and I think it is becoming embarrassment'

Allan Hirsh's claims were later on confirmed by Alfie Green when he alleges that he is now being 'followed' by some of the NMRG funders because he was one of those who were working with money:

'There were senior researchers at various universities who were leading respective research teams. When we make out cheques to these universities, the money will be under the control of them. The project leaders were supposed to ensure how this is spend ... I was not in the control situation ... so I cannot really tell you how the money was spent ... I was just a 'hired' staff who was not even participating in some of the deliberations being made. The only thing that worries me now is that after I get here at NIEP to work in 1996, the IDRC people came to me and say 'hey! you must come and account on some of the money ...

While I am not saying that there has been some corruption, I do suspect that there was a lot of it and mismanagement ... my interpretation is that there was still some money in those universities when the MERG closes its offices'

All of the above information illustrates that there was low trust amongst the MERG researchers themselves. Analytically, this might have contributed to the weakening of the report's legitimacy and credibility. The point is that these things does not only began to be exposed now. Obviously, they have formed part of the

MERG's 'life' and indeed there was no way in which a sense of unity could have emerged in this type of situation.

Thus, according to Merton Dagut, the MERG operated like a 'consultancy network' because during the process, individual researchers were targeting senior members of the ANC and lobbying to do research for them, of which even though those researches were not falling within MERG's terms of references, they were however paid for. He thus stressed that 'this implies that someone was being paid for a work which was not of the quality of work needed.. researching on something that one already know and knowing whom to target for those results'³¹.

However, the above outlined administrative problems of the MERG process need to be located within certain structural constraints and difficulties. Two important points may be used to contextualise this problem. Firstly, as Padayachee (1995) clearly illustrates, the question that needs to be posed is that of whether the researchers should have been treated as contracted consultants who would have nothing to do with the management of the research process. The subsequent problem that this raises is the extent to which the ANC, being the supposed beneficiary of the MERG process, has made some attempt of solidifying the commitment of the contracted researchers or not.

This is because both the background, experience and qualifications of the MERG researchers and leaders of the democratic movement differed sharply (Padayachee, 1995:66).

The second point relates to the extent to which the ANC, though under the pressure of providing a coherent political intervention during the negotiations, has been able to work out on its priorities in utilising the MERG researchers as its resourceful base. While the broad 'mandate' of the MERG was primarily that of formulating macroeconomic framework for the ANC, the organisation also relied on MERG researchers for policy input even before the latter completes its final report. As Merton Dagut indicated:

'The objective of coming out with something tangible was inhibited by the fact that the world was not stopping while we were busy with MERG. Politicians at the World Trade Centre were always in need of speech-writing. So most people would spend time at the World Trade Centre... that implied that policy inputs to beef up the politicians were being made at the expense of the research process'³².

In one way or the other, it may be argued that this is one of the reasons that made the ANC to reject the MERG report without having studied its entire content because by the time the MERG released its findings, the ANC had already 'tested' the support of some of its recommendations in its interaction with both the local business sector and international institutions like the IMF and the World Bank.

Some of the researchers were indeed aware that the MERG report will not be accepted by the ANC even before the research process was completed. Lindsay Falakov captured the disillusionment during the process when he remarked that:

'The MERG slipped away from the ANC control. It was eventually ran by academics from overseas. They also had disagreements with the framework the MERG was using. The ANC felt that it cannot commit itself to a document that contains controversial and vague arguments. They were scared that this will close off some of the prospects the country was to gain from foreign governments and investors. The world was no more the same as it was, for instance, when the Freedom Charter was framed'³³.

Yet, according to Harry Zarenda, there were three broad reasons which led to the rejection of the MERG report by the ANC. Firstly, it was disagreements between MERG researchers and the ANC over severe budget constraints. The ANC felt that tax rates would not be severely increased while the MERG wanted to widen the tax base through tax differentials (MERG, 1993:34-5).

Secondly, the ANC was not convinced that the state will have the capacity and capability to implement potentially growth-enhancing policies and Whether the business sector will respond positively to such policies. Similarly, Natrass (1994:525) contends that the MERG was silent on both these issues. The third area which caused some conflict was the allegation by the ANC that the MERG report overlooks the question of business confidence while the ANC felt that South Africa's entry into the global economy should be taken serious.

From all of the above, it is clear that the policy making process during the MERG involved conflict over what strategy should be adopted. Therefore, the Chapter has examined both the emergence and the disappearance of the MERG report. It has began off by tracing the context within the process was undertaken. Through this, it has clearly outlined the terms of reference through which the MERG process operated. Through the identification of actors and their respective interests, the Chapter has demonstrated

how the conflict within MERG led to its demise. In the next Chapter, the thesis continues to examine the extent to which the process of policy making is being undertaken during the formulation of GEAR.

NOTES TO CHAPTER THREE

¹ The current situation in South Africa makes this distinction a blurring and an ambiguous one. In the past, 'non-progressives' were easily identified as those who, broadly, supported neo-liberal policies — in whatever vague form as long as they have been perceived by some as gaining roots through the policy of apartheid. Presently, with the ANC-led government adopting some of the neo-liberal policies admired by the NP in its last years of rule, it remains theoretically cautious for one to draw a sober distinction between 'progressives' and 'non-progressives' — especially in the context where the identity of being 'progressive' has been used to refer to those who stood by the ANC's policy proposals as a national liberation movement. For an insightful reading of how both 'progressive' and 'non-progressive' academics re-asserted their respective roles in influencing policy research see Webster (1991)'s 'Servants of Apartheid? — A survey of social research into industry in South Africa', in Rex, J. (eds) *Apartheid and Social Research*

² Dr Gerry Helleiner was by then the professor with the Department of Economics at the University of Toronto, Canada. Dr John Loxley was the chairman in the Department of Economics at the University of Manitoba, also in Canada; while Dr Benno Ndulu was the Senior Advisor of the African Economic Research Consortium, Kenya.

³ This refers specifically to those respondents who are in one way or the other, members of the ANC or strong sympathisers with the ANC.

⁴ Author's interview with Alfie Green, 21/10/1998

⁵ Author's interview with Stephen Gelb, 14/08/1998

⁶ The ambiguity of emphasising the independence of the MERG process is in fact one of the central problems for including academic researchers in the process of policy making. See the thesis's discussion of this point under the section on Conflicts during the MERG process.

⁷ Author's interview with Harry Zarenda, 22/12/1998

⁸ The ANC's Constitutional Guidelines, produced in 1988, is usually seen as the first milestone from which the organisation began its entrance into debates about crucial economic issues.

⁹ Author's interview with Merton Dagut, 22/12/1998

¹⁰ Author's interview with Stephen Gelb, 14/08/1998

¹¹ The rationale for locating the MERG in the HBUs was in accordance with one of the process's objectives: building research capacity amongst black academic economists. It was also hoped that these HBUs would benefit in various ways (funds, new human resources, etc.) as part of their own efforts at institutional transformation. See Padayachee (1995:59) and IDRC (1991:11-12). Even the mainstream economic liberal magazines such as the *Finance Week* (April 22-29, 1993) was quick to appreciate this point by noting that 'in this way MERG can be seen as a mechanism helping to secure a more effective relationship between policy makers in the democratic movement and a significantly number of highly committed South African economists, as well as a contributor to the development of greater capacity for economic analysis throughout South African society'

¹² It should be remembered that by this time, South Africa was more or less under the political control of the established Transitional Executive Council — a structure formed by the negotiating parties to facilitate the reforms

that were taking place in the country. Analytically, this meant that the NP lost power even before the April 1994 elections.

¹³ Author's interview with Harry Zarenda, 22/12/1998

¹⁴ Author's interview with Allan Hirsh, 6/08/1998

¹⁵ The implications of this will become evident in Chapter 4 of the thesis when the author explore some of the factors behind the ANC's economic policy shifts.

¹⁶ Author's interview with Stephen Gelb, 14/08/1998

¹⁷ Author's interview with Allan Hirsh, 6/08/1998

¹⁸ Author's interview with Merton Dagut, 22/12/1998

¹⁹ Author's interview with anonymous respondent number A, 20/10/1998

²⁰ Author's interview with Lindsay Falakov, 13/10/1998

²¹ Author's interview with Merton Dagut, 22/12/1998

²² Author's interview with Stephen Gelb, 14/08/1998

²³ Author's interview with Jeremy Cronin, 16/11/1998

²⁴ The word 'lever' is used here because the thesis discovered that the ANC's rejection of the MERG report was not based on its analysis of the actual report per se, but that by the time the MERG researchers were busy doing their work, the ANC was already showing signs of abandoning some of its traditional policy positions which were ironically underpinning the MERG's framework. So, the ANC used these confusions strategically as a scapegoat to reject the MERG report.

²⁵ Author's interview an anonymous respondent number A, 20/12/1998

²⁶ Author's interview with Jeremy Cronin, 16/11/1998

²⁷ See an expansion of this point in the succeeding section dealing with conflicts and problems of co-ordination.

²⁸ Author's interview with Alfie Green, 21/10/1998

²⁹ Author's interview with an anonymous respondent number B, 22/10/1998

³⁰ Author's interview with Allan Hirsh, 6/06/1998

³¹ Author's interview with Merton Dagut, 22/12/1998

³² Author's interview with Merton Dagut, 22/12/1998

³³ Author's interview with Lindsay Falakov, 13/10/1998

CHAPTER 4

CONSOLIDATE TO ADVANCE OR ADVANCE TO CONSOLIDATE?...processes leading to GEAR

4.1. INTRODUCTION

‘Amongst the constant facts and tendencies that are to be found in all political organisms, one is so obvious that it is apparent to the most casual eye. In all societies — from societies that are very meagrely developed and have barely attained the dawns of civilisation, down to the most advanced and powerful societies — two classes of people appear — a class that rules and a class that is ruled. The first class, always the less numerous, performs all political functions, monopolises power and enjoys the advantages that power brings, whereas the second, the more numerous class, is directed and controlled by the first, in a manner that is now more or less legal, now more or less arbitrary and violent’.

[Mocsa (1959:50), quoted in Ham, C and M.Hill, 1993:31]

Processes leading to the unveiling of the *Growth, Employment and Redistribution* (GEAR) strategy reflect the above quoted conventional approach to policy making. This approach, usually called ‘elitist approach to policy making’, conceives of social policy as being the field of the so-called experts. It clearly centralises power within the state and excludes all other extra-parliamentary interests groups. As Gelb (1997:1) points out, this approach underlies the predominant view of the political conditions for economic reform which suggests that the most important prerequisites of successful reform are firstly a coherent team, and secondly a political leadership which is willing and able to insulate the team from political pressures.

This approach, continues Gelb, advocates the exclusion, or at least restriction, of politics, for fear that demands from various groups in society will compromise policies based on sound economic analysis (1997:1). The analysis assumes a particular nature of a political state in driving the policy process. That is, the state which assumes, or pretends to assume, to know the plight of its citizens and thus claiming to work within certain rational frameworks. This is the point that Walt (1994) makes in her distinction between what she calls society-centred and state-centred

approaches to policy making. The GEAR process falls within the latter approach in which concentration is given on the decision process itself — consisting of rational models derived from the assumption that policy makers make policy choices on rational grounds, resulting in optimum policy choices. Gelb (1997) alluded to this point by emphasising that the major preoccupation for most economists is on the side of speed, stealth and consequently reforms from above.

Thus, unlike with other policy 'documents' which have been shaped by the ANC's tradition of participatory approach to policy making, the unveiling of the GEAR strategy by the ANC-led government signifies a move which locates political power over decision making processes within both parliament and certain government departments. Both the centralisation of political power and the compartmentalisation of the policy process within and between government departments — aided by technical experts to achieve their own [state] interests — meant that other extra-parliamentary interest groups are either being submerged or strategically dislodged from making inputs.

Yet, this should not be over-exaggerated because as Chapter 1 of the thesis reveals, the ANC government became increasingly more contested than it was initially anticipated. Chapter 3 has identified academics, local and foreign, as key actors in the MERG policy process. However, their influence was narrowed, and indeed suppressed by their lack of political power or as Patrick Bond observes:

'ignored MERG folk from whom we can learn that anytime a group of progressive economists wishes to challenge the ruling elite, they should work harder at confirming the social base whose interests they aim to represent is organically connected to them, so that they not only teach the constituency and learn from it, but also give the constituency ownership of the process'¹

However, the idea of 'ownership of the [policy] process' as raised by Patrick Bond above needs an introspective qualification. Indeed in matters of policy formulation, conflicts and competition over 'ownership' of the process is not an exercise for its own sake, but one in which different actors are purposively competing with each other to access state power. Power in this context carries with itself profound aspects of legitimacy and authority — a 'valuable resource' through which the winning group or actor can have an entrenched capacity or widened opportunity to manipulate or coerce other [defeated] actors to succumb to his or her own point of view. This is basically one of the reasons which contributed to the disappearance of MERG. Different actors

competed with each other over the ownership of the MERG process — a competition which was intrinsically featured with political subjectivity as the ANC's DEP felt that the process was being taken from them by the academics who wanted to pursue the British-left-centred economic framework in South Africa.

With extremely few exceptions like Stephen Gelb, the thesis found that the process leading to GEAR involved completely new actors from those who have participated in the MERG. Ironically, those who have directly or indirectly participated in both processes, have either undergone some ideological re-orientation or have successfully gained space for reconfiguring some of the unresolved conflicts from MERG into GEAR.

Moreover, attempts to categorically establish who was responsible for the formulation of the policy had been in vain. It appears that the process was so 'secretive' such that no person would like to confidently and publicly claim to have been responsible for the policy. Indeed, Cronin was quick to respond that those who were responsible for drafting various components of the GEAR strategy were told to work secretly to avoid any possible contention of the policy by the ANC's alliance partners².

Extrapolating on the reasons behind this 'secretive' process of formulating the GEAR, Adelazadeh (1996:67) concludes that this is an indication of a panic response to the recent exchange rate instability and a lame succumbing to the policy dictates and ideological pressures of the international financial institutions. Nevertheless, from the acknowledgements in the GEAR document, the following have been identified as actors in the process:

1. Development Bank of Southern Africa: Andre Roux		Ian Goldin
		Dirk van Seventer
2. South African Reserve Bank	:	Daleem Smal
		Ernie van der Merwe
3. World Bank	:	Luiz Pereira
		Richard Ketley
4. Department of Finance	:	Andrew Donaldson
5. Department of Labour	:	Guy Mhone
6. Department of Trade and Industry	:	Alan Hirsh
7. University of Cape Town	:	Iraj Abedian
		Brian Khan
8. University of Stellenbosch	:	Ben Smit
		Servaas van der Berg
9. University of Durban Westville:		Stephen Gelb

The above identified actors, or individuals drawn selectively from certain institutions and governmental departments constitute, as defined by the GEAR document, a 'technical team', rather than policy makers per se. By its very nature, the identity of a 'technical team' implies that there was something already existing and that this team served the purpose of a back-up. Their role has been that of providing research inputs and weighing different economic models to 'policy-makers in government. The process involved the testing and simulating of certain 'economic models' within an already established macroeconomic framework provided by the Ministry of Finance and/or his Department of Finance.

The role of the 'technical team' has to be understood within certain theoretical perspectives of analysing the policy making process. The immediate question that comes to mind in this case is that of asking whether the models presented by these technocrats were indeed neutral such that it would be 'unjustifiable' to link them to any particular political and economic ideology. In his critique of the models used in the process, Adelzadeh (1996:66) emphasises:

'After a careful reading of the document, we have concluded that the proposed framework and policy scenarios represent an adoption of the essential tenets and policy recommendations of the neo-liberal framework advocated by the IMF in its structural adjustment programmes'

This chapter will provide an account of why and how the ANC ended up adopting the 'neo-liberal' framework that was even seriously condemned by MERG when criticising the NP's NEM. Three interrelated arguments will be made in the succeeding subsections. Firstly, it will be argued that the adoption of the GEAR strategy by the ANC-led government is a reflection of certain fundamentally unresolved ideological conflicts that characterised the MERG process. Related to this will be the argument that before entering into government, the ANC was under the influence of mass political and social movements which were connected to each other by the broad struggle against apartheid.

By contrast, as a ruling party, the interaction that the ANC came to experience both as a government-in-waiting political party and ultimately as a ruling party made it vulnerable to be influenced or manipulated by new actors which were not historically connected to the organisation during its years of struggle. Amongst others, these 'new' actors include the National Party itself, the pro-apartheid Conservative Party, South African business leaders, potential foreign investors and lenders like IMF and other international financiers, Western governments

and international institutions such as GATT and WTO.

The third argument which is more sophisticated but very interesting to explore is that the GEAR policy process was also being facilitated by the selectively recruited 'progressive academics' who failed to win the battle during MERG. Linked to this re-allocation of 'progressives' within the ANC government, is the irony that while MERG was under the drive and influence of British-left-centred experts, the GEAR strategy appears to have drawn its expertise from Western-oriented policy advisors. Nevertheless, this does not mean that the ANC was always ready for these seemingly 'imported' economic approaches. The process itself was highly contested and as it will be shown in the discussion on Chapter 6, the GEAR strategy remains a contested policy framework.

4.2. BUREAUCRATIC AND TECHNOCRATIC PROCESSES

4.2.1. *Talking 'left', acting 'right': The State and the Changing role of 'progressive academics'*

The entry of the ANC into the Government of National Unity with other minority parties carried with itself serious challenges about processes of developing policies that will address the legacy of the past. This point has been observed by the late Wolpe (1995:94) when arguing that 'although the ANC is by far the largest party having obtained over 60 percent of the vote, nevertheless the establishment of the GNU enables the National and the Inkatha Freedom Parties, both in the cabinet to exercise an important influence in a variety of ways on the policy of the government and on the operation of the bureaucracy'. Moreover, the highest votes that the ANC scored against all the other political parties that contested the elections in 1994 speaks volumes of why people made that choice. In the context of this thesis, that overwhelming electoral support meant that the majority of people in South Africa perceived the ANC as an organisation that will come up with policies that will directly address the legacy of the past, no matter how debatable remains the quality of that understanding.

In fact, the act of voting in elections with an objective of expressing one's preference for a particular political party over others is in itself an exercise of trying to influence government policy. In his analysis of public policymaking in modern societies, Dror (1989:91) summarises this point quite succinctly when noting that 'in democratic countries, the private individual has more opportunity to shape public policy, since as a voter he can, in the aggregate, critically influence the careers of politicians'. In particular, continues Dror, the voter exerts influence by choosing between the different general tendencies and 'styles' of the competing parties and candidates and that 'the specific contribution of free voters to public policymaking is that they increase the influence of popularly held values, interests, and opinions...' (1989:91-92)

Analytically, most ANC electorates assumed that the nature of the state after apartheid will be an instrumentalist one in leading and indeed 'bringing' social and economic development to them. Ginsburg and Webster (1995:63) highlight this point when predicting the nature of the post-apartheid state by locating their analysis within the experiences of most post-independence African countries. They argue that in these countries, the state became the central arena for

international and local business interests and other parties to pursue their goals in the civic and private spheres. Furthermore, they contend that within that context, political and administrative positions became strategic sites for acquiring material resources and controlling or regulating economic opportunities.

The above analytical intervention by Ginsburg and Webster holds true for the situation in South Africa. In the 1980s South Africa witnessed a proliferation of grass-roots organs of civil society in the form of trade unions, civics, student organisations, non-governmental organisations and community organisations. Despite the fact that their existence was necessitated by the NP's commitment to an apartheid welfare regime, these organisations were assumed to become the pillars upon which the new democracy would have to be consolidated. Embodied within this assumption was, of course, matters related to policy formulation. It was assumed that participation in policy-making processes will be highly entrenched during the ANC government.

Yet, as shown in the previous Chapter, the process of formulating economic policy meant that the enthusiasm of these organs could not be tapped without conflict over what policies should be adopted.

Instead of a policy process being supported or initiated from below, the immediate post-apartheid state adopted a bureaucratic, top-down approach. Ironically, this approach was even encouraged through what became known as the 'brain drain' syndrome. Key policy critics and leaders who were active in driving the civil society organisations opted or get recruited into joining the ANC in government. Padayachee (1998:443) summarises this point quite eloquently when arguing that:

'Progressive academic economists who were involved in ET, ISP, and MERG, also faced new choices after 1994. Many have left universities to accept full-time positions in key state departments such as Finance, and Trade and Industry, an option which did not exist for this community before. Others have remained within universities but relate to the state in various ways. Some have severed links with the state for one or other reason. Only a few academic economists continue to relate in any structured way to social movements in civil society'

Two arguments can be made about some of the assumptions being held for encouraging this 'brain drain'. Firstly, it was assumed that by leaving both the NGO sector and the trade union movement into government, these individuals will help the ANC government to formulate and implement policies that were 'historically' aspired by their respective constituencies.

Parallel to this assumption, is the second one which is underpinned by pluralist notions of corporatism — an idea which, according to Friedman and Reitzes (1996) implied the bureaucratisation of the role of civil society in policy making processes since its purpose is not to empower civil society but to formalise the participation of interests who already have power and whose demands the state needs to incorporate if it is to govern effectively³.

Similarly, Wolpe (1995) observed that, guided by instrumentalist notions of governance, the ANC wanted to centralise the policy making process within the state. He argued that this approach was even entrenched within the RDP White Paper when it was declared that:

'...every office of government, from the smallest village council to the largest national department, will have to be restructured to take forward the RDP' (1994:12)

Of course, the above conception of the state as a functionally integrated instrument carrying out the behests of an external agency (Wolpe, 1995:93), can be explained with reference to the nature of concessions and compromises made by the ANC during the negotiations period with the NP at the World Trade Centre. Beginning with the brave but controversial contribution made by the late ANC strategist Joe Slovo in his discussion paper entitled *'The Sunset Clause: what room for compromise?*, the ANC conceded to enter into power-sharing arrangements with the NP. It also compromised on a drastically restructuring of the apartheid bureaucracy which was by then dominated by whites, mostly Afrikaner males who hold key state positions in both the military and high positions of in the public service. From an economic policy analytical point of view, these forms of compromises were to shape the nature of the post-apartheid policy process.

It was on the basis of these concessions that the movement of key figures from both the trade unions and the NGO sector into government was perceived as a process of reinforcement for beefing up the ANC parliamentarians and guarding against any potential retrogressive policies against those promised by the ANC. Though at the risk of over-simplification, it could be argued that it was a movement based on the assumption that an equal number of ANC parliamentarians to that of the remaining apartheid politicians in government, or even a significantly high variation to that effect in favour of the ANC, will make it possible for the ANC to drive its radical transformation agenda in a more 'aggressive' and 'coercive' manner.

The mandating of some of the COSATU leadership into the ANC government first in 1994 and the deployment of hundreds of them in the local government structures a year and a half later was a reflection of the above arguments. Twenty COSATU leaders were released to stand as parliamentary candidates on the ANC's list, including some of the organisation's most senior office bearers and strategists. An estimated 80 key leaders left the organisation at the time of the national elections and a much larger number of lower-level leaders left in late 1995 after the local elections (Adler and Webster, 1997: 24). Though in an uncoordinated manner as compared to that of COSATU, the same has happened to the NGO sector, which in most communities consisted of and was dominated by ANC activists.

As it has been pointed out earlier on, the overall guiding idea was that such individuals would strengthen the capacity of the ANC and at the same time shape its direction towards labour's goals (Adler and Webster, 1997). In his report on the pre-election interviews conducted all over South Africa to assess, among others, COSATU's decision to send some of its leaders into the ANC government, Buhlungu (1994:16) found that though many members of COSATU expressed that an ANC will be sympathetic to the needs and the interests of the workers, they were nevertheless wishing that the ANC got low, not high votes in the 1994 elections. This was because they were worried that 'a big ANC vote may make some within the ANC to believe that the time to dispense with the unions has come, thus making the relationship more tense and less co-operative'.

By contrast, they were of the idea that 'a low ANC showing may make the relationship more co-operative as the ANC will feel less secure and need the support of the trade unions. More relevant to this thesis, Buhlungu (1994:8) discovered that COSATU's decision to nominate union candidates into government was based on the belief that:

- people trusted by workers will occupy key policy-making institutions at all levels of government.
- For the first time workers may have access to sympathetic decision makers, many of whom will feel obliged to keep the unions informed about discussions in decisions making structures.
- The union nominees are better placed to understand the concerns and aspirations of workers, many of them are the architects of the RDP.
- Union nominees comes from a tradition which respects principles of accountability,

particularly mandates and report-backs.

At a more concrete level, COSATU remained more committed to ensuring that the ANC government is enabled to implement the RDP. This was basically because the RDP was originally conceived as a unifying field of positive symbolic referents which anyone desiring change from an apartheid order could buy into (Götz, forthcoming). Indeed, from COSATU's conception, the RDP was envisaged as a set of socio-economic targets against which the performance of the new (ANC) government would be judged (Marais, 1998:178). An expression of this conception was even echoed by Jay Naidoo, the former General Secretary of COSATU who was also nominated into an ANC government when declaring publicly that he will seriously consider other options, including resigning his seat, if the new government becomes unaccountable or if it deliberately fails to honour the RDP and worker rights (quoted in Buhlungu, 1994:9).

Similarly, in its 1994 February congress, the National Union of Mineworkers registered its unequivocal pre-conditions behind its full support for the ANC election campaign. This was captured in the union's presidential address by James Motlatsi who warned that 'our relationship with the ANC is not like a one-way street. We shall fight to the last to get the ANC into government...but we expect something in turn...We expect the ANC to support our fight against the mine owners. It cannot sit on the fence and act as arbitrator between the union and the mine owners' (von Holdt, 1994:80). As von Holdt (1994) reported, this perspective was expressed in the in a NUM congress resolution that the union should:

'jealously guard the tripartite alliance so that the ANC-led government remains working class biased [and that] the NUM members should play a leading role in ensuring that the ANC and the SACF remain mass-based as opposed to being totally swallowed into parliamentary processes'

More tellingly, COSATU's decision was also reinforced by President Mandela's closing remarks in his opening address of the federation's special congress in September 1993 when assuring them that:

'If an ANC Government fails to deliver, you must do it exactly what you did to the government of De Klerk' (Ginsburg and Webster, 1995:100)

Notwithstanding that the above declarations and commitments represented what Walt (1994:4) calls the 'society-centred' approaches to policy-making process because of their emphasis on a class approach in which decision making [was] to be dominated by a particular social class bias, the post-1994 period was to prove a different case. As the 'foe' that served as the centre of unity for different anti-apartheid forces disappears from the scene, so was the case with the ANC's attachment to most of its alliance partners.

Indeed, opportunities for social development appeared to have been over-exaggerated by underestimating the constraints that were to be faced by the ANC-led government. By far and large, the majority of people in South Africa, especially blacks, never took into serious cognisance the implications of a number of compromises and concessions made by the ANC during the negotiation period with the National Party at the World Trade centre.

These concessions laid the framework from which the ANC had to locate and construct its economic policy vision. The then NP president, F.W. De Klerk, was even confident in confirming this when in 1991 he said in his visit to Taiwan that:

'My government will not agree to any new constitution that will permit the introduction in South Africa of obsolete and rejected ideologies that have failed dramatically elsewhere in the world'

(Finance Week, November 21-27, 1991)

It is arguable to conclude then, that the optimistic vision of a radical transformation of the South African economy for fulfilling some of the crucial, and indeed politically legitimate aspirations of the ANC's electorates, were to be shattered and closed off after the ANC resumed official political power⁴. Ironically, the limitations of that optimistic possibility was grasped and felt by the ANC's key economic policy supremos than it was the case with its alliance partners and the majority of its black electorate.

For instance, after negotiating a US\$850m drought relief facility during the IMF and World Bank annual meeting in the US in 1993, Trevor Manuel had a much more difficult task of communicating the high expectations of the voteless to those more interested in 'business as usual' when addressing the Global Business Access conference organised jointly by a number of business conglomerates in closing the annual gathering of the two Bretton Woods Institutions. He noted that 'since negotiations started, the position of our people have deteriorated and [that] they

will ask next year where are the fruits of our struggle' (Bruce, 1993:3). Similarly, Tito Mboweni had the following to say after having attended three major international economic conferences — two of them, the Davos annual meeting and Southern Africa Forum connected with the all-powerful organisation, the World Economic Forum and the third one being the 1991 annual meeting of the IMF and the World Bank:

'The message from these meetings seems clear enough: if you want your economy to grow, follow the route prescribed by the IMF and the World Bank or the so-called 'western' market economic approach...Unfortunately, for the democratic movement, the international situation is not favourable to their programmes...' (*Finance Week*, January 9-15, 1992)

In fact, the ANC found itself being confronted by the dilemma of having to choose between two contradicting options. On the one hand, was the traditionally aspired radical policies of consolidating the political democracy gained in 1994 in order to advance the cause of fulfilling the promises which were made in the run up to the first elections. At the core of this option lay strategies like nationalisation and the entrenchment of the role of the state in pursuing the approach of '*growth through redistribution*' as was propagated by policy frameworks like the MERG process and the RDP Base Document.

Counter to the above mentioned option came that of a long-term strategy of advancing to consolidate: the idea that redistribution programmes will not be successful unless there is quite extensive efforts in laying the ground for sustainable economic growth. Within this option are policies of liberalising the economy and the wooing of foreign investments through the adoption of tariff reduction policies and the rolling back of the state from the economy. The ANC had to make the choice between 'going with the masses' right from the outset or going first with the market forces with the assumption of consolidating and preparing the economic ground for a later take-off stage.

According to Lehlure (1995) this option has been adopted by both the ANC leadership and the labour movement, particularly COSATU, in the mistaken belief that by emphasising the need for skills acquisition by the South African workforce will logically lead to competitiveness and efficiency, thus leading to economic growth that will make it possible for the government to accumulate revenue and finance most of the social development programmes. Similarly, and in a more cynical contrast to Nelson Mandela's most famous phrase of 'long walk to freedom',

Marais (1998:147) dubbed the ANC's ascendancy to neo-liberalism as 'short walk to orthodoxy'⁵. Thus, it is arguable that the ANC came to be convinced that in resolving the challenges that were brought forth by the elections, the neo-liberal framework would be the best option.

Moreover, by the early 1990s, most analysts had already predicted the implications of this dilemma with regard to the post-apartheid economic policy making process in South Africa. For instance, Padayachee (1994) once argued that:

'With power so close at hand, it is perhaps inevitable that new dynamics come into play, new constituencies have to be won over and compromises made with old enemies. But one would like to believe that the constituencies which have traditionally made up and supported the liberation movement will not be forgotten'

In the same vein, Lazar (1994:351) contends that in order for the ANC to resolve this dilemma, it will have to retreat from its potentially repressive notion of a strong, centralised, so-called 'developmental state', (on South Korean model) if it is to attract foreign investors, encourage the confidence of domestic investors and still the doubts of many — black and white including many ANC supporters and members — who fear a new kind of statist oppression after apartheid'. Of much interest is how the ANC government adopted a centralised notion of policy making in order to put in place policies that were and continue to be deviating from its traditional position.

During the interviews, most respondents acknowledged the fact that the context within which the ANC took power made it difficult, if not 'impossible', for the government to embark on any serious attempts for consultation with the ANC's alliance partners in matters concerning the formulation economic policy⁶. Falakov indicated that:

'... this was due to the difficulty of progressing and having a clear line of march within the democratic establishment because in some ways, it is true that the ANC's alliance organisations like COSATU were not going to agree with the more strict, orthodox and standardised forms of economic policies the government would like to put in place. For him, the rationale for avoiding thorough consultation processes in the formulation of the GEAR policy was that 'if you consult, you will end up with nothing or a pretty-watered down type of approach'⁷.

Likewise, Cronin pointed out that the process was so complex as some of the key leading individuals who were part of the mass democratic movement — especially those who have worked with civic organisations and the trade union movement in the past — became to constitute the core of policy making machinery within government. According to him, the policy making process is being 'monopolised' and centralised within what he calls 'the triumvirate' in the ANC-led government: Trevor Manuel, Alec Erwin and Thabo Mbeki, surrounded by individuals like Allan Hirsh, Stephen Gelb, Andre Roux, Maria Ramos and Gill Marcus. For Cronin, these individuals, except for Thabo Mbeki whose position he alleges to be so complex to identify:

'do not come from the so-called ANC's 'liberal tradition' which is currently being revoked to frustrate any argument for redistribution policies...but they were always sceptical about the ANC...they were in the forefront of the workerist/populists debates in the 1980s, favouring workers' interests and were closer to the SACP than to the ANC. But this grouping is now a very powerful economic policy body within the ANC government....coming with a particular new orientation'⁸

This 'particular new orientation' constitutes what Gelb calls 'the pragmatic' approach which became necessary for the ANC leadership in dealing with the challenges of globalisation⁹. In this context, pragmatism is defined narrowly as a situation whereby the ANC's policy makers should refrain from talking about things like nationalisation, radical processes of wealth redistribution to the poor, high taxation of the rich, protection of workers' interests against the evils of South African capitalists and instead move towards the creation of good environment for the creation and accumulation of wealth for the few — as if we have all benefited from 'apartheid capitalism'¹⁰.

Interestingly, the adoption of 'pragmatism' by the ANC was accompanied by a process of locating those who have failed to win the battle during the MERG process into the government's key positions. As indicated above, the dilemma with MERG was that most of those who won the 'battle' failed to sustain their input through extensive lobbying of key potential state bureaucrats.

Thus Cronin pointed out that people like Stephen Gelb, Allan Hirsh, Andre Roux, Alec Erwin and others who appear to have succumbed to the so-called 'Washington Consensus' approach have been able to locate themselves in the ANC government because they are based here in South Africa. This is in contrast to individuals like John Sender, Lawrence Harris, Vella Pillay, Ben

Fine and to a certain extent Max Sisulu, who despite the fact that they were also academics with quite complex analytical skills in making economic policy inputs, 'failed' to insert themselves within the broader political processes and organisations of the state structures¹¹.

What follows from the above forms of arrangements is the fact that, owing to their historical networks with the mass democratic movement, these individuals came to constitute the centre of economic policy gravity within the ANC-led government. Joined by other new actors like Richard Ketley who once worked for the World Bank, Dirk van Seventer from the DBSA and Servaas van den Berg from Stellenbosch¹², the ANC came to be convinced that this group have the capacity to formulate policies that will enable it to govern effectively and in such a manner that South Africa will have 'adequate' policies for facilitating its incorporation into the global economy.

Richard Ketley was even brave enough to confirm that what the ANC wanted, and of course lacked in the years before it took over power, was the capacity to avoid 'populism' and develop quite aggressive policies for an effective and efficient post-apartheid state¹³. He emphasises that: '...if we put aside some of the criticisms by trade unions like COSATU, what you see in GEAR, and of course in any government, is a reflection that it is one thing to be in opposition and another to be in power because in power you have to deal with some realities and presently, the realities of the South African economy have fewer solutions that people could have imagined'.

He continues:

'when people are in government, they have more information than they would have while they were still in opposition and in one way or the other, it is that access to a variety of data sources that makes the government to make decisions which may or may not contravene some of its earlier agreements with some stakeholders in the [economic] policy process...the government should pursue those policies it finds to be useful even if those other stakeholders might feel disappointed. The reality is that you cannot continue to rely on unsound macroeconomic policies with an idea of satisfying everyone'¹⁴.

As one of the anti-apartheid veterans and University of Pittsburg African Studies professor, Dennis Brutus argued in a panel organised by the Union of Radical Political Economics in Washington, the struggle within the ANC between TINA and THEMBA — There Is No Alternative, or There Must Be an Alternative — seems to have been won by those who want to

push into the world economy at all costs, even gutting the RDP via the White Paper, accepting IMF conditionality, destroying once-protected industries and encouraging arms exports (Bond, 1995:3).

Sentiments of the 'THEMBA' approach were apparent when attempting to ascertain whether the abandonment of the Keynesian economics by the ANC implied that policy documents such as MERG and RDP were out of step with the international balance of forces. Alan Hirsh reiterated strongly that:

'There is only one global economy, we do not have a choice! We do not have a choice about which globe we are on and our global economy is a highly internationalised one at the moment in terms of trade flows, capital flows, technology flows, flows even of people and we cannot stop it...it is only very large countries that have the development dynamic that are somewhat independent of the global economy...countries like China, India, the US and very few others. Those are countries where they try to have a greater amount of autonomy to a greater extent because the size of their domestic markets is large. South Africa is tiny in global terms — about half percent of the global economy — and this makes it difficult for us because we are small and far away from the global market'¹⁵

Similar responses have been found by Pilger (1998) in his interaction with the ANC leadership. He commented that Thabo Mbeki, the Deputy President, told him that 'the ANC had no choice at all'.

Therefore, the role of the 'technical team' in driving the GEAR process premised on the above conviction of accepting the imposition of globalisation's 'rules of the game' to South Africa. In the same vein as Richard Ketley argues above, Daleem Smal from the South African Reserve Bank (SARB) insisted that their role was to help the Finance Ministry to design policies that will keep South Africa on the same path as the rest of the world¹⁶. While denying that the SARB should be classified as one of the actors in the GEAR process, she nevertheless inferred:

'...monetary policy is what is currently world-wide accepted and in line with this trend, the best contribution the Bank [SARB] could make in terms of poverty relief measures was to ensure that inflation is guarded against...so, the government told us that GEAR is part of the RDP. With RDP, there is no limitations...with GEAR you have the supply-side approach and this is what the Bank was [contracted] to do for the Ministry...though I have to emphasise that we only got involved in the process after they had decided everything because of our technical capacity'¹⁷

From all of the above, it is evident that instead of the policy process avoiding strategies of 'subjugating ourselves to the global economy' as Alan Hirsh claimed¹⁸ and to Guy Mhone's emphasis that '[domestic] strategies are not predicated on global trends but based on national circumstances'¹⁹, the GEAR strategy signifies, at least at the level of conception, a coercive process which is inherent to any social policy whose essence lies in compelling people to do what they would otherwise not do. The process was centralised within the state bureaucrats — consisting of former MDM 'progressive economists' who have now adopted new orientations. They become to constitute what they see as a 'progressive state'²⁰.

In his eloquent search for explaining the changing content of progressive policy advice by the 'progressive economists', Padayachee (1998:443) outlines a number of factors. He argues that amongst other factors, the normal process of growing 'conservatism' that accompanies ageing is one. That the 'young' progressive economists of 1985 are now 10 years older and that the speed of the South African transition caught many people, including progressive economists, by surprise and as such forcing a policy response for which they were all ill-prepared. While pragmatism and the practice of the art of the possible remains one of the convincing reason for the ascendancy of neo-liberal social policy within the ANC, Padayachee (1998) provides some additional explanations.

Firstly, that the engagement of progressive academic economists with social movements in South Africa coincided with a global political and intellectual swing to the right, a trend which began in the UK and US in the late 1970s and gathered momentum in the wake of the collapse of Soviet and eastern European style socialism in the late 1980s and early 1990s.

Related to the latter point about the collapse of socialism is Habib (1995:62)'s argument that the delegitimation of communist ideology has significantly reduced the rhetorical and propagandistic capabilities of some political actors, and enhanced those of others in South Africa's transition. Secondly, following Fine and Rustonjee (1996:248), Padayachee contends that the social sciences in South Africa have been insulated or cushioned from intellectual developments elsewhere and that [our] economics has been underdeveloped even from orthodox perspectives. He thus concludes that 'these factors, coupled with relative isolation, the absence of a rigorous debating tradition, bitter personality conflicts and power struggles left them vulnerable to the neo-

liberal juggernaut when these right-wing ideas, backed by powerful, global institutions and resources, entered South Africa in a big way after 1990' (Padayachee, 1998:444).

Indeed, during the research process Cronin confirmed that the above factor was much more central in shaping the ANC's policy formulation process. He cautiously remarked:

'at the senior level, particularly on matters concerning trade policies and debates about disadvantages and advantages of liberalising our economy and on the implications of privatisation and nationalisation, some people like Trevor and Mandela...are good comrades...but I think they are quite naive in terms of broad economic policy issues...Mandela himself has little economic policy background: a zero-background in terms of economics. So the ANC is quite vulnerable with little or no strong anti-neo-liberal bodies at all'²¹

Yet, it precisely remains the degree of legitimacy and popularity that these former MDM policy advisors, especially the 'progressive economists', carry with themselves which make them able to 'market' some of the 'neo-liberal' policies contained within the GEAR strategy and thus weakening any possibility of 'mass' resistance from the ANC's alliance partners such as COSATU and the SACP.

The process of suppressing any challenge to GEAR from either the socialists within the SACP or the centre-left within SANCO and COSATU was done through what Thabo Mbeki was heard to have said that 'the populist-autocratic tendency within the ANC leadership will 'talk left, act right' (Bond, 1999:77).

This was made smooth through processes of interaction with both local and foreign business actors and to some extent, with institutions such as the IMF and the World Bank. The next section will explore in detail the extent to which these new actors contributed to the South African policy process by a way of marginalising the ANC's traditional alliance partners.

4.2.2. The Marginalisation of 'old actors' vis-à-vis the Relocation and Reassertion of 'new actors' in the ANC's Process of Formulating the GEAR strategy

Thus, what we see is not only changes in economic policy making processes, but changes which are being driven by an adoption of new ideas and ideological orientations by those who have been the think-tanks of civil society in the past and who, by now, are in the forefront of policy making in government. The post-1990 period witnessed a period in which old and new actors competed with each to access the ANC-led state power. What is very interesting is that in the process, those who have been or attempting to shape the ANC's post-apartheid economic policy vision in the past are now being overshadowed and replaced by new actors, especially in the form of business experts, IMF and World Bank advisors, foreign investors and international trade regulating organisations like the GATT and the WTO.

Appendix F tries to illustrate how in the past, the economic thinking of the ANC was influenced by actors like COSATU, included its research think-tanks like the ISP and the ET; the ANC-aligned Centre for Development Studies (CDS) which was based at the University of Western Cape; civic organisations under the umbrella of SANCO; the ANC's economic sympathisers in exile, who operated mainly through the Economic Research on South Africa (EROSA), the 'less famous' DEP-established research consortium of sympathetic economists in London; the SACP and a number of youth organisations like the South African Youth Organisation (SAYCO) and students organs like the Congress of South African Students (COSAS) and the South African Students Congress (SASCO) which had all operated under the umbrella of the United Democratic Front in the 1980s and a number of educational organisations like the National Education Co-ordinating Committee (NECC) and the South African Democratic Teachers' Union (SADTU).

By far and large, these 'grass-roots' organisations were on the one extreme, strongly influenced by the Soviet-based model of economic policy path, while on the other less extreme, were also influenced by the what Cronin calls 'the African development model' with strong role of the state²². In contrast, the post-1990 economic policy of the ANC began to be largely influenced by the local business sector, presently organised under the auspices of the South Africa Foundation, the DBSA; SARB with its economic modelling exercises meant for testing various probabilities for government policy makers; international institutions like the IMF, the World Bank, the

GATT and the WTO; foreign investors and some liberal Western governments and both the local and foreign mainstream media. Coupled with other political minority parties like the NP and the DP, most, if not all, of these new actors in the shaping of the ANC's economic policy thinking, premise from the neo-liberal framework of policy making, thus provoking left analysts such as Lehlere (1996) and Bond (1996) to conclude that the ANC's GEAR policy represented the interests of capital at the expense of the RDP's objectives of meeting the 'basic social needs' of the people.

4.2.2.1. International institutions's influence of the policy process in South Africa:

The IMF and the World Bank

Despite the varying degrees of critiques, it has thus far become a common held view that the ANC's GEAR policy has been largely influenced by the above international institutions (Marais, 1998; Pilger, 1998; Michie and Padayachee, 1997; Bond, 1998; Adelzadeh, 1996; Matisonn, 1998; Turok, 1999). This is because these institutions had always stood for what became known as the 'Washington Consensus', an approach which is being adopted by GEAR after the ANC has abandoned the Keynesian approach as proposed by policy frameworks such as the MERG report and the 'original' RDP²³. The 'Washington Consensus' held that good economic performance required liberalised trade, macroeconomic stability, and getting prices right and that once government handled these issues — essentially, once government 'got out of the way' — private markets would produce efficient allocations and growth (Stiglitz, 1998).

By comparison, the 'Washington Consensus' denotes what is presently referred to as neo-liberal policies. Inherent within the present process of globalisation, these policies have been facilitated by the above mentioned institutions to most countries, especially into the developing and underdeveloped countries. Beginning in the 1980s, both the IMF and the World Bank have been advocating, and indeed imposing, the 'Washington Consensus' approach to most Third World countries through the Structural Adjustment Programmes. As Padayachee (1994:82) argues, the breakdown of the Bretton Woods system in the early 1970s left the IMF with the principal task of providing short-term Balance of Payments (BOP) assistance to most Third World countries which turned to the institutions in situations of BOP problems.

Thus, once a country approaches the IMF for financial assistance, it logically fell into the 'trap' of having to apply certain economic policies as stipulated and contained in what is referred to as the 'Letter of Intent' when signing the IMF's loan offer. As one of the official IMF publications once reported, it is this letter of intent which in one way or the other proves that the IMF is not, and has never been, involved in providing loans to its member states, but that these loans are meant for and expected to be used according to certain neo-liberal policies. The publications noted:

'The misconception that the [IMF] applies identical remedies may have been arisen because the overall thrust of the Fund-supported programmes does indeed reflect a similar concept about the best way for a country to re-establish a sustainable balance of payments situation. This concept reflects the principles of the Fund's Articles, which support liberal trade and payments practice...All Fund-supported adjustment programs, therefore, reflect an effort to open an economy up, to liberalise economic activities, to establish realistic prices, and to reduce controls (Brown, 1992:46)

Before one can venture into examining how the IMF and other institutions influenced the ANC's economic policy, there is a need to first and foremost look at how these institutions, particularly the IMF and the World Bank, have been involved in South Africa. This is because an appropriate conceptual approach should be to divide the study of the IMF's involvement in policy matters in South Africa into two: during the apartheid era and from 1990 on-wards²⁴.

South Africa's relations with the IMF dates back from the early years of the IMF's establishment in 1944. That is, South Africa was one of the 29 countries which signed the IMF's Articles on Agreement on the 27th of December 1945. South Africa has traditionally enjoyed cordial relationship with the IMF, having received a number of loans from the institutions up until 1983 when the US law (the Gramm amendment) required that the US Executive Director at the IMF oppose loans to South Africa, unless the secretary of the Treasury certifies in person before the US Senate and House Banking Committees that the loan would 'reduce the distortions caused by apartheid (Michie and Padayachee, 1997:29). Table 4.1 below shows the amount and years in which South Africa has enjoyed borrowing from the IMF and the World Bank, without any conditionalities attached to its loans.

Table 4.1. Loans accessed by SA from IMF and World Bank during apartheid

INSTITUTION	YEAR	AMOUNT with credits of special drawing rights, SDRs*	PURPOSE
IMF	1957/58	-	stand-by credit arrangement (loan)
	1975	91.2 million	balance of payment (BOP)
	1976	390 million	BOP
	1977	162 million	BOP
	1982	\$1.1 billion	BOP — support of export failure
World Bank	between 1946 and 1967	11 loan projects totalling \$241.8 million	Seven of these loans were in support of the development of SA's transportation system and the remaining four were to Eskom.

Source: adapted from Michie and Padayachee, 1997

* = Special Drawing Rights which were created in July 1969 as a form of international reserve asset to replace the dollar as the IMF's official unit. They are allocated to members as a supplement to other reserves and they function as credits in the member countries' accounts with the IMF, which can be used to buy hard currencies from the IMF in times of debt or BOP problems.

What is relevant to the thesis with regard to the above loans, especially those from the IMF, is that they have been given to South Africa without any conditionalities attached.

Most importantly, is the fact that compared to other Third World countries, South Africa has not been a heavy borrower of foreign capital. In fact, as Padayachee (1988:40) argues, South Africa's purchases and drawings [were] placed into perspective when compared to the use of the IMF funds by other countries, firstly in Southern Africa, and secondly in its IMF country classification. Between 1947-1984 South Africa's share of IMF purchases amounted to nearly 50 percent of all purchases of IMF funds by Southern Africa states. This is illustrated in Table 4.2. below:

**Table 4.2. Southern African states' Purchase of IMF Currencies,
1947-1984**

(in millions of SDRs and as a percent of total IMF purchases by Southern African states)

	1947- 1979	1980	1981	1982	1983	1984	Total 1947- 1984	%
Lesotho	0.6	-	-	2.0	-	-	2.6	0.1
Malawi	35.9	24.4	30.0	14.7	34.2	37.8	27.0	4.6
South Africa	980.1	-	-	902.2	-	-	1882.3	49.3
Swaziland	1.9	-	-	4.3	10.0	-	16.2	0.4
Tanzania	138.0	40.0	15.9	1.7	6.1	-	202.3	5.3
Zambia	439.0	50.0	359.3	41.5	188.4	147.5	1225.7	32.1
Zimbabwe	-	32.5	37.5	-	153.6	89.9	313.4	8.2
Total regional Purchases							3819.5	100.0

Source: *International Financial Statistical Yearbook* (1985); adapted from Seidman (1985) by Padayachee (1988:40) with the following notes: (1) Zimbabwe did not receive any IMF credit under the minority Smith regime (2) Angola, which [was] not an IMF member; Botswana which made no drawings on the Fund and Mozambique which only joined in 1984 are not included here.

It can thus be deduced from the above information that under apartheid, South Africa has enjoyed cordial relations with the IMF²⁵. This has made the country to 'survive' much of the IMF/World Bank's 'direct' influence in matters relating to economic policy. Moreover, this raises a number of questions. Why was this country different from other countries which get trapped in debts at early stages after 'decolonisation'? Does this denote that the apartheid state's economic policies were so 'advanced' in terms of the then dominant trends of the 'Washington Consensus'? Why was it the case that this country remained favoured by the IMF's 'key influential decision makers'?

In an attempt to give answers to the above questions, most critics prefer to locate their analysis within what Bond (1999:106) calls 'geopolitical terms' of South Africa's position in the world. The IMF clearly regarded South Africa as the key target to its plan for the 'economic

development of Southern Africa and the latter has frequently attempted to influence other Southern African states to open or increase their dealings with South Africa (Padayachee, 1988:40). For an example, in 1980 Zambia was asked — amongst other policy changes — to re-open its trade routes to South Africa in return for IMF assistance (Padayachee, 1988:40). Thus, despite the fact that the UN had always took a strident and forceful condemnation of South Africa's apartheid policies, the IMF never felt obliged to question its relations with apartheid-South Africa but instead continued to play an important role in supporting the apartheid state in times of political uncertainty (Bond, 1999:106; Padayachee, 1988:41).

One central conclusion can be drawn from the above evidence. As Seidman and Seidman (1978:75) correctly claim, this type of funding 'reflects the supportive role played vis-à-vis South Africa by this official financial institution, controlled by the Western developed nations...the IMF provided a critical source of funds to off-set SA's chronic balance of payments deficits. Related to that, is the fact that the IMF funding to South Africa was intended at guarding any potential ground for socialist influence in South Africa. The evidence for this is captured in the 1982 controversial loan that South Africa applied for and get approved despite serious objections by other IMF member states.

Despite Horwood (the then Minister of Finance)'s claim at the IMF/World bank annual meetings in 1979 and 1980 that South Africa's economy was doing well and who attributed the claim to SA's monetary and fiscal policy restraint, the country ran up a deficit on the current of the balance of payment in the massive amount of \$438m after 1981 decline in gold price from over \$800 an ounce and importing surging (Padayachee, 1988:46). As a result, notes Padayachee (1988:46-47), by mid-1982 when it appeared that there was little likelihood of an improvement on the current account, SA, despite numerous denials by top financial officials approached the IMF for a stand-by loan of \$1.1. billion. The application for this loan was met with mixed feelings by the IMF's member states — with opinions ranging from those who urged that the loan not be approved under any circumstances to those who stated that the loan should be approved on conditions that South Africa abolished its 'apartheid imposed rigidities'. However, the loan was ultimately approved, with Canada, USA and Western Europe in support of South Africa against seven executive directors representing 68 countries (Padayachee, 1988).

To summarise, South Africa's relations with the IMF has, in the past, been so cordial and supportive. Though this country has not been a heavy borrower of foreign capital or a 'victim' of

the IMF's SAPs, its relations with the latter makes it more sophisticated to conclude that it has not been under the influence of 'neo-liberal policies' inherent within any financial ties with the IMF and the World Bank. Its uniqueness lies only in so far as it has borrowed money directly or indirectly to finance politically inspired investments such as SASOL and ARMSCOR — something which generated what become known as 'politically induced structural problems'.

Yet, the policies that the apartheid state pursued could in no way, even if explained as coincidence, be explained in isolation from the implications of the 'favours' in terms of funding the country has received from the IMF. Padayachee (1994) summarises this point eloquently when noting that despite [the IMF]'s claim that of political neutrality — which in the case of South Africa was supposedly clear when the IMF never bothered itself to challenge racial accumulation of wealth by the white minority regime — it has favoured right wing authoritarian parties, and that in some cases, its actions and policies led to the demise of left-leaning governments.

Thus, given the suppressive legislations that the apartheid South Africa passed against left-wing political organisations such as the ANC in the past, the conclusion that the IMF has been facilitating a cordial relationship with the National Party government can be explained in geo-political terms is much more convincing than the one which tries to obscure any 'hidden' form of influence by the IMF to South Africa's economic policy by virtue of the latter having been not subjected to the former's SAPs. Moreover, though the IMF quit lending loans to South Africa in 1980s, it kept on sending in advisory teams each year to help the apartheid government switch to neo-liberal economic policies. In 1991 for instance, IMF experts designed the regressive Value Added Tax which led to a two-day strike by 3.5 million workers in November that year.

The cordial relationship between the IMF and the apartheid Pretoria regime as described above began to face serious uncertainties pending prospects and initiatives of political reforms in the late 1980s. Realising that the ANC will replace the NP as a ruling party in a post-apartheid country, both the IMF and the World Bank started to re-assert their future role and indeed how to influence new policies for the in-coming new government. Amongst other actors such as the NP itself, the local business community and foreign Western governments and potential investors — together with some of the 'pragmatic progressive economists' who had by then adopted the prescripts of the 'Washington Consensus', the IMF and the World Bank emerged as central actors contesting the transition from apartheid to democracy in South Africa in the early 1990s.

To a greater degree, these efforts were reinforced by the fact that the ANC — perceived as the government-in-waiting by the two Bretton Woods Institutions — has always been sceptical and cautious and indeed demonstrated a negatively held attitude towards any possible relations with either the IMF or the World Bank in future. Moreover, the nature of the IMF and the World Bank's future role and relations with a post-apartheid South Africa was not to remain the sole discretion of the ANC, no matter how the latter appeared to be the dominant party in the country. It became an area of contestation between, on the one hand, those political parties and the South Africa media commentators who favour free-market policies and who also remain the beneficiaries of apartheid policies and wanted to maintain the economic status quo, and, on the other hand, those who favour state-led economic growth path for addressing the legacy of the past.

According to Padayachee (1994:83-84), there were, within the ANC, four different views about the IMF's role in the economic reconstruction of a post-apartheid South Africa. The first view was the one which has reconciled itself to the IMF view of growth and development. It is based on a kind of 'global consensus', following market-oriented economic reform and liberal, pluralist political solutions in the post-Cold war era. In this view, IMF/World Bank loans, adjustment programmes and technical assistance are regarded as good for growth and should therefore be eagerly solicited. The second view saw the IMF/World Bank as agents of evil imperialist powers out to destroy nationalist and socialist development programmes in developing countries, to open them to western trade and investment with the objective of bolstering capitalist economies in the industrialised west.

The third view was the one which believes that the IMF/World Bank can be persuaded to accept South Africa's nationally-determined development strategy, even where elements of the strategy may be anathema to these institutions. In this view, continues Padayachee, the assumption was that these institutions have changed their development philosophy to accommodate more interventionist strategies or are prepared, for both economic and political (or moral) reasons, to make special concessions in South Africa's case. Thus, loans from these institutions are conceived to as not having to challenge the country's chosen development plans and goals.

The last view was the one which recognised that the IMF/World Bank may indeed have marginally changed aspects of their approach since the late 1980s but that, however, their views are still not easily reconcilable with a more interventionist development strategy. Thus, it was

acknowledged in this view that, despite South Africa's many bargaining strengths, negotiating a favourable agreement with the IMF will involve a continuous struggle and that only with a proper strategy and planning based on a careful review can this happen.

As for Padayachee and indeed other critiques — both within and outside the ANC, the first three views were indeed out of step with any potential relations with the IMF/World Bank. This is because, given the fact that South Africa remains a labour-intensive economy, conditions for any possible viability of the 'trickle-down' approach embodied within the first view were unlikely to provide any sustainable remedy to the 'legacy of the past. The same could be said with the regard to both the second and the third views.

The solution becomes that neither an optimistic view of 'dragging the IMF/World Bank by the nose' or as Padayachee ironically put it — 'to ride the IMF tiger' — into accepting our domestically-designed policies will be possible. Nor will it be possible by simply claiming to have the capacity to avoid their world-wide influence inherent within the interdependent nature of the global economy.

The ANC's options to engage the IMF/World Bank were thus slim and the speed with which the negotiations at Kempton Park were moving contributed to closing off any aggressive attitude by the ANC towards these institutions. In fact, this situation was complicated by the interaction which most ANC leader began to have with both local and foreign business, included being with international financial institutions such as the IMF and the World Bank. For instance, 'in the period 1992-'93 several top ANC economic staffers (including some with significant formal training in economics and others without any such training) underwent short executive training programmes and orientation courses at foreign business schools, investment banks, economic policy think-tanks and the World Bank, where they were clearly fed a steady diet of neo-liberal ideas (Padayachee, 1997:47).

Indeed, the effects of these sorts of interactions was to be felt when different and often conflicting policy began to emerge within the ANC, especially towards the IMF and the World. According to one of the thesis's respondents, these differences were resolved by:

'letting few key individuals within the ANC to continue to seek advice from the IMF/World Bank in such a way that undermined any substantial economic input advises developed within the country by several

academic economists who were either members or sympathisers with the MDM. People like Trevor 'danced' enthusiastically to these institutions as if the type of economic policy advice they provide was something imported from heaven and was never practised elsewhere in the world! Our research into these matters drawn heavily from the experiences of other African countries and really...there was not need for the ANC people to turn their backs against us and look for 'messianic' miracles from the IMF and the World Bank.²⁶

Analytically, the above outlined four different views about the role of the IMF/World Bank in a post-apartheid period, provided the space for, and indeed gave these institutions the lever to rigorously enter the economic policy debate in South Africa. This came out clearly during the interviews when Falakov exclaimed:

'The infiltration of the ANC's economic policy choices was aided by the divisions within the ANC itself...especially in the manner in which the ANC responded to MERG report. The IMF and the World Bank discovered that the illusion that the 'brutalities' of apartheid as experienced by most blacks were not to serve as a source of unity for the ANC to adopt anti-market policies...they quickly learn the implications of these divisions than anyone of [us].'²⁷

Thus, beginning in the 1990s, these institutions embarked on a number of researches aimed at what could be viewed as the legitimisation of their long-standing free-market policies and demonstrating how these policies could be beneficial to the post-apartheid South Africa. The ANC remained key target of these demonstrations and research output as it was increasingly becoming clear that it has shifted its radical position of pursuing the overriding theme of '*growth through redistribution*'. Indeed, while it has been argued elsewhere that this position reflected the influence of the left within the ANC at the time, critics such as Natrass (1994:343-360) argues that the '*growth through redistribution*' route was chosen largely because it served the political purpose of uniting various constituencies within the ANC — implying a certain degree of expediency and an awareness that the policy had a short shelf life (Marais, 1998:148)

In what resembled Matison (1998)'s commentary that 'traditional Keynesians had won the battle in MERG, but lost the war at Shell House', the ANC opened up its doors for a number of IMF and World Bank to its headquarters in 1990. For instance, in May 1990, the World Bank made its first substantial appearance in South Africa in more than two decades and went to the ANC to present its research proposals on broad macro-economic issues as its contribution to building the new South Africa.

The World Bank delegation was strategically led by one Geoffrey Lamb — a former SACP intellectual who had spent time in jail during the 1960s before escaping to East Africa and then to Sussex, England where he completed his doctorate and acted as supervisor to South Africa's emerging cadre of Marxist sociologists, prior migrating to Washington where during the 1980s he focused on making neo-liberal African economic policies appear 'home-grown' (Bond, 1997:31). During the visit to Shell House in 1990, Lamb was responsible for running the World Bank's London Office, thus, ironically coming all the way from London to counter-act his ideologically rival and neighbour in London, the British-left-centred Marxist, Vella Pillay, who by then insisted that the ANC should adopt Keynesian policies.

At Shell House, the World Bank received ANC endorsements for their research which was to focus on analysing conditions for possible economic growth paths in South Africa and generate policy options in macroeconomics, industry, health, education, housing and land reform (Bond, 1997:31).

Similarly, Padayachee (1997:32) observes that the World Bank decided to concentrate its resources in the initial years of its South Africa programme on four areas: macroeconomic policy, employment prospects and their related implications, industrial policy with a special emphasis on employment generation, and public expenditure alternatives. Above all, the World Bank agreed to the ANC that there would be no loans to the De Klerk government, which it too labelled 'illegitimate'.

The warmth welcome of the World Bank by the ANC and the subsequent endorsement of its research work by the latter on South Africa's economic policy options is at the core of this thesis in its attempts to extrapolates how the former influenced the ascendancy to neo-liberalism in South Africa. Processes of policy formulation involves huge command of resourceful information based on a number of other countries's experiences. Thus, as it has been argued earlier on, the ANC never developed a sophisticated approach to the types of policy statements it has lived with in the past. The only resourceful information it had, if any, was the one that was based on the either the Soviet union or the 'developmentalist state' as practised in most African countries.

Unfortunately, both these models were in decline when the transition in South Africa began in the 1990s. It thus appears that the ANC thought that the World Bank will be helpful in contributing to

the process of policy formulation in South Africa. At the level of analysis, this serves to confirm the argument that in the policy debate, it is always those who have enough resources to commission research and draw on a variety of information that their options will be taken. So, the resources, both in terms of finance, expertise and comparative country-case studies (information), that the World Bank possesses, make it easy for it to influence most countries' policies. However, as Bond (1999:115) observes, there is an increasing tendency within the MDM in South Africa to try and make distinction between 'good cop' (World Bank) and 'bad cop' (IMF). Within this distinction, the IMF is perceived as an 'extremely' neo-liberal oriented institution while the World Bank is seen as adopting and indeed encouraging 'neo-Keynesian' approaches. This was confirmed by Hirsh when indicating that:

'The World Bank's macroeconomic policy documents which came out in 1993/94 were quite Keynesian. The Bank was actually arguing that we could take the government deficit before borrowing to 12% and then we will eventually come back to manageable levels. So, if the current government was following the World Bank it would have been higher than it was now...it would have been a peaceful regime than it currently is'²⁸

He went further to point out that other things in which the World Bank had an influence on the ANC's economic policy include: micro-policy with regard to land reform in which 'the World Bank's staff appeared to have been more radical than the ANC since they were arguing that we should borrow a huge amount of money to transfer a huge amount of land from the people who currently own it to the people who had been dispossessed'. He also mentioned that in his Department of Trade and Industry, their Industrial Policy came out of the discussions held with the World Bank staff, particularly with people who had experience with East Asia. Moreover, he was also quick to qualify and clarify his response by emphasising that:

'I have to make it clear that all these policies are not directly imposed to us by the Bank. Some of them came out of the partnership programmes developed by our Department of Trade and Industry and the Japanese government, especially when Trevor Manuel was still the Minister in the department. Through the Japanese Grant Fund, the Japanese government gave the World Bank money to use in South Africa for policy research. This reflects a tripartite form of process and it did not involve the ANC meeting with the World Bank, it was actually labour, business and government together...out of which we developed programmes like perishment export guarantees for small business, competitive fund, the Skills Bill under the Department of Labour and so on...'²⁹

Padayachee (1997:33) also conceded that the two World Bank discussion papers, one on the macroeconomy and the other on trade, which were published in March 1993 (Fallon *et al.*, 1993; Bell *et al.*, 1993) used the framework of market-friendly or market-oriented '*growth with redistribution*' underpinned by the language and rhetoric of its more recently articulated and more sophisticated positions. Indeed, in most, if not all of the World Bank's discussion documents on South Africa's economic policy, there are undertones of acknowledging the need for state-intervention in regulating some of the economic activities with an objective of addressing poverty, unemployment, housing and land redistribution.

However, as Pillay (1997:119) indicates, the identity of a 'good cop' as assigned to the World Bank does not necessarily mean that the Bank is, or even intending to abandon its supply-side economics which has been guiding its structural adjustment programmes being imposed to Third World countries by it and its sister organisation, the IMF.

This is because while the World Bank's warning about increasing the size of fiscal deficits and the need to maintain good fiscal management in order to ensure macroeconomic stability appears acceptable in South African case, 'its [staunch] opposition to an expansionary role for the state, especially in regard to fiscal instruments to stimulate demand, an outward orientated strategy of development, and preference for maintaining 'an appropriately depreciated real exchange rate' in order to stimulate private investment and the expansion of non-gold exports' (Padayachee, 1997:33), put the institution in the same *modus operandi* with that of the IMF. This led Robert Urquhart to make the following conclusion after a detailed critique of the World Bank's draft of sectoral studies in South Africa:

'Arguably, the [Bank's] South African documents attempts to present both Keynesian and Monetarist interventions. But this is not the case: on the whole the South African documents reflects a neo-liberal paradigm: do away with trade tariffs, lower wages and open the economy up to international competition...The Keynesian intervention is really about making the environment more friendly for private investment — relying on private investment to be the growth stimulator. *This freeing of the market in turn leads the documents away from a concern with trying to reconcile poverty alleviation with growth and more with a concern for growth*' (quoted in Padayachee, 1997:33-34)

Interestingly, is the fact that the World Bank itself was aware that these type of policies will generate some discontent within the MDM forces in South Africa. For instance, World Bank's main urban strategist, Michael Cohen had the following to say in 1992:

'We are trying to enter the debate in South Africa with a full awareness that virtually anything that we do will have an unhappy outcome for one side or the other. There are some important ways of demonstrating that reform and changes are to be to everyone's advantage, but politically this is going to be difficult. I do not have to any difficulty in being regarded with suspicion — that's the way it goes'

(quoted in Bond, 1999:85)³⁰

Yet, despite the above epitome of 'aggressiveness' on the part of the World Bank's desire to shape and influence the policy process in South Africa, the ANC leadership in government offered both the World Bank and the IMF a 'protected hospitality' against those who were labelled as 'populist critics'. An illustration of this is when the World Bank staff played a central role in the formulation of the government's GEAR strategy and the subsequent co-option of some of its personnel like Richard Ketley into the Finance Ministry. Again, three months after the unveiling of the GEAR strategy, Trevor Manuel had the opportunity to chair a plenary session at the World Bank annual meeting in October 1996 and a few days later invited IMF managing director, Michel Camdessus to South Africa (Bond, 1999:122). At his arrival at the Johannesburg airport, Camdessus was greeted with protests and few days later Alec Erwin moved on and defend Camdessus in a newspaper interview headlined 'Erwin slams the critics':

'Our policies are consciously designed to prevent the possible pitfalls of a World Bank loan and the effects they sometimes had on other countries...[World Bank] influence is negligible; second, we have put in place policies designed to prevent the detrimental effects that some of their projects might actually have...we often use World Bank expertise and feel sufficiently experienced not to be threatened'

(quoted in Bond, 1999:122)

All of the above arguments show that the IMF and the World Bank had a significant influence on the economic policy making process in South Africa. While there is widespread allegations that the GEAR policy is a reflection of the extent to which interaction between the ANC and the two institutions contributed significantly to the former's rejection of policy proposals by both the MERG and the RDP Base Document, Padayachee (1997:37) argues, however, that there have been conflicting reports about the government's relations with the IMF. Nevertheless, most critiques trace the IMF's influence into South Africa from the 1993 loan amounting to \$850 million loaned from the IMF's Compensatory and Contingency Financing Facility (CCFF). The TEC signed the IMF's 'Letter of Intent' for accepting the loan on 7 December 1993 and the this was later on approved on the 22nd of December of the same year — binding South Africa into

accepting certain 'conditionalities'.

Thus, despite IMF claims that this loan 'simply wants an undertaking, by a legitimate body, that the economy would be responsibly managed', as a precondition for the loan, this usually includes wage restraint, limits on government social spending, and rapid trade and industrial liberalisation (Padayachee, 1994:86). Bond (1999:120) reveals that 'the terms of the IMF loan, which were kept secret until leaked to the press in March 1994, included the rapid scrapping of import surcharges, a drop in the government deficit/GDP ratio from 6.85 per cent to around 6 per cent,, and demands not only for a drop in public sectoral wages (by roughly 6 per cent), but also a decrease in wages across the board.

Embodied within such framework are the government policies of privatisation, reductions and cuts of social expenditure; the shedding of the thousands of public service sector jobs by the Department of Public Works from 9 000 to about 3 500 (*The Star*, February 10, 1998); widespread mass retrenchments in the chemical manufacturing industry, wholesale and retail industry, construction and manufacturing and the mining industry (*Sowetan*, November 1996). Most policy analysts account for these type of policies to the fact that the ANC had to comply with the IMF's conditionalities as laid down in the letter of intent in acceptance of the 1993 loan. The commitment of the ANC to neo-liberal policies was earnestly exposed when the organisation's key policy makers, especially those in government, were even brave to insist that an adoption of these policies does not constitute a shift from some of the organisation's traditional policies.

This offensive was launched in two ways. Firstly, through the suppression of any input sensed to be a challenge to the ANC by its partners in the alliance, that is from the SACP and COSATU. Recalling back about how the SACP was silenced into questioning the ANC for signing and accepting the IMF's loan in 1993, Cronin said:

'I raised the issue of the IMF's \$850m in one of our NEC meetings in 1993 after having read about that in a newspaper and I expected the ANC to clarify that...as an organisation...as my organisation! The issue was basically blocked and Tito stood up and said that it was irrelevant for the meeting to discuss that. As far as I know, it was not discussed later in any of the NEC's subsequent meetings'³¹

Related to that, is the subsequent decision by the ANC to exclude COSATU and the SACP, and

indeed the broad democratic movement, in the process of formulating the GEAR policy. This is despite the fact that key policy officials of the ANC in government claims that GEAR was discussed first at a meeting of the macro-economic group, a sub-group of the ANC NEC's economic transformation sub-committee and that, the text was then shown to the ANC's National Working Committee³². In fact, the message that any one who appears to be against the ANC's 'trek' to an adoption of strict monetary and fiscal policies was made by President Mandela himself, six months after his inauguration as the State President of this country.

In his address to the ANC's 49th Annual Congress in 1994, he strongly emphasised:

'From time to time our reference to fiscal discipline, macroeconomic stability and economic growth tend to irritate those justifiably impatient about change. Yet these are neither luxuries nor requirements foreign to the ANC's own policies. Sheer logic tells us that our programme cannot be carried in a sustainable way without a rational utilisation of the resources at our disposal'³³

The above emphasis by Mandela was even reiterated by Allan Hisrh who claims that a need for fiscal discipline and sound macroeconomic policy could even traced back from the Freedom Charter, which, according to him remained a fairly social democratic document than it has been 'dubbed a socialist document' by those who used it as a propaganda to block processes of reforms on the one hand, and on the other hand, by those who made the mistake of confusing the ANC with socialists organisations like the SACP'. He indicates that:

'...this was reiterated by the 1990 meeting in Harare which was attended by different elements of the Congress Movement in which...contentious issues like fiscal policy and the need to maintain balances in macroeconomic policy were agreed upon...and that suggested that one could not spend his way out of the crisis through excessive spending'³⁴

The above convictions were even corroborated to by people such as Jay Naidoo who joined into the ANC government under the mandate of COSATU to presumably ensure the latter's pro-labour policies against the possibilities of being swallowed by business-orientated policies. Despite the convincing observation that the RDP White Paper represented the transformation of the role of the fiscal prudence from a means to achieve the RDP objectives to an objective of the RDP (Adelzadeh, 1996:66), Naidoo argued vehemently and ironically against his own 'federation's mandate'³⁵ by declaring that those against fiscal discipline should not:

'be too simplistic so as to reduce the need for fiscal discipline to a neo-liberal agenda. Fiscal discipline is an instrument, it is a tool for either pursuing a neo-liberal agenda, which is antagonistic to the interests of the majority of people, or for pursuing a radical agenda, which addresses the needs of the majority of people, and addresses growth and development as interdependent issues. It does not belong to Margaret Thatcher or to the IMF, and that is the assumption that some of our comrades are making'³⁶

What is therefore explicit from all of the above, is the fact that the ANC bought into some of the IMF and World Bank policy proposals made in the early 1990s. This, of course, has been the case despite serious warning and indeed contestations by critiques such as Vella Pillay that if the IMF conditions attached to the \$850m Contingency and Compensatory Financing Facility were [to be] implemented, unemployment would soar to catastrophic levels (Padayachee, 1994:87). However, the two institutions' influence of the South African economic policy process was also aided by the pressures exerted upon the ANC by other actors like the World Trade Organisation and the General Agreement on Trade and Tariffs; and also by the local business in South Africa.

4.2.2.2. International institutions's influence of the policy process in South Africa: The WTO and GATT

The IMF/World Bank's [historical] role in influencing several nation states' economic policies and the role being played by GATT/WTO in regulating international trade constitutes two sides of the same coin. Taken together, these institutions pursue an adoption of free-market policies across the globe. While the IMF/World Bank focuses on SAPs to compel nation states to adopt stringent monetary and fiscal policies — broadly underpinned by the assumption that economic growth should precede programmes of redistribution and development, the GATT/WTO facilitates the realisation of this assumption by encouraging nation states to create conducive conditions for free international trade.

Established in 1948, GATT has provided the institutional basis for trade negotiations in the post-war period. Its fundamental purpose was threefold: to achieve a substantial 'free' and 'fair' trade through reduction of tariffs and elimination of other trade barriers between countries, encouragement of non-discrimination and multilateralism to all signatories and, unconditional reciprocity among all its signatories. However, since its inception there had been some exceptions about these principles. Countries were encouraged to take the risk of moving even more toward

completely free trade (Gilpin, 1987:191). Although the Eastern Bloc and certain less developed countries never signed the GATT agreements and did not accept GATT principles, coupled with the fact that a number of OECD countries completely fulfilled their GATT obligations, the basic principles of this institution provided the basis for the post-war liberalisation of world trade (Gilpin, 1987:191).

A substantive examination of how the GATT has been paradoxically living up to its founding principles is beyond the scope of this thesis. However, one point needs to be emphasised. Under the formula of what becomes to be known as the 'compromise of embedded liberalism' in Chapter Four of GATT, countries could accept the obligations of the GATT and join in tariff-reduction negotiations without jeopardising their domestic economic objectives (Gilpin, 1987:191-192). The establishment of trade blocs such as the European Community can be explained with reference to this paradoxical nature of GATT's purpose. The subsequent effect thereof is the tension that emerged steadily in the mid-1980s between some of the GATT's founding members and countries in the less developed category.

Gilpin (1987) summarises the nature of this conflict within GATT when alluding that 'the New Protectionism, economic regionalism and illiberal domestic structures which constitute trade restrictions and lead to international competition in a proliferating number of economic sectors came to facilitate an unlikely solvable problem to GATT's initial idea of 'compromise of embedded liberalism'.

Discussions to revive the institution were initiated in 1986 and concluded in 1994 in what is presently known as the Uruguay Round. The Uruguay Round in which the signatories of the GATT were involved in multilateral trade negotiations led to the establishment of the World Trade Organisation (WTO), normally defined as the successor of GATT. The former was officially launched in 1 January 1995.

Moreover, for the purpose of the this thesis, in trying to figure out how the GATT laid the foundation for the widespread liberalisation policies across the globe — and subsequently in South Africa, one need to provide a conceptual rider concerning the 'claimed' notion of WTO as a successor to GATT. One important acknowledgement that should be taken into account when explaining the process of succession, if not replacement, of GATT by the WTO, is the fact that since its inception, GATT was only intended to be an interim measure for facilitating

international trade. Yet, since the first round of negotiations held in Geneva in 1947 which resulted in 45 000 tariffs concessions affecting \$10 billion of trade, the GATT was left to last for half a century (Jones and Whittingham, 1989).

Of most intriguing is the fact that as far as the WTO's alleged succession to GATT is concerned, there is nothing substantially new about the broad economic policy framework used for 'regulating' international trade between the two. According to Jones and Whittingham (1989:16), the principal differences between the two are:

- GATT was an ad hoc and provisional set of rules; it was never ratified in signatories' parliaments. The WTO and its agreements are permanent, have been ratified by members and thus has a legal basis. The WTO has members, whereas GATT had 'contracting parties'.
- GATT had no institutional foundation, only a small associated secretariat, the WTO is a permanent institution with its own secretariat.
- The GATT rules applied to trade in merchandise goods. In addition to goods, the WTO covers trade in services, and trade-related aspects of intellectual property.
- The WTO dispute settlement system is faster and more transparent than the old GATT system. Its rulings cannot be blocked.

Having outlined briefly both the origins and purposes of the GATT and the WTO, how did these institutions affect the policy process in South Africa?

As indicated earlier on, the incorporation of South Africa into the global economy was driven by the logic of having to adopt policies that will make this country a 'global competitor'. Essentially, this also meant that South Africa has to adhere to what is presently known as 'global rules of the game' — a phrase referring to an adoption of policies such as export-led growth, liberalisation of the economy to foreign competition and the reduction of trade tariffs to facilitate the process of attracting foreign investors into the country.

Chapter 1 has indicated that South Africa's economy was highly protected from foreign

competition during the years of apartheid. The country's reliance on import-substitution strategy was heavily criticised by the 1990 ANC meeting in Harare. In a paper presented at that meeting by the DEP, the ANC associated this strategy with an undue orientation towards 'producing consumer goods for the wealthy minority, a lack of international competitiveness, and an inadequate contribution to foreign exchange rates (Bell:1997:78). Nevertheless, the organisation's National Conference in May 1992 stated that '...we will take a differentiated approach towards trade barriers...in particular, tariffs may, in conjunction with performance requirements, enable domestic and regional producers to develop new branches of production; and that, trade barriers will be adjusted, within an agreed framework, to prevent the destruction of domestic and regional producers, the loss of jobs, and the exploitation of South African consumers (ANC, 1992:28)³⁷.

However, pending the transition from apartheid to democracy, Bell (1997:71) notes that by the beginning of the 1990s, South Africa had made substantial progress towards trade liberalisation. According to Bell trade liberalisation includes any act that would make a trade regime more neutral, in the sense that it reduces the bias towards production for the domestic market and against exports and that this include four principal attributes: relaxation of quantitative reductions, reductions of tariffs, devaluation and direct export promotion measures. Moreover, he charges that trade liberalisation in South Africa has focused mainly on tariffs reduction in a quick manner than on the other three.

South Africa's participation in the Uruguay Round opened space for these institutions to set the terms for the country's entry into global markets.

By signing the Uruguay Round of GATT (Bell, 1997, Marais, 1998:128-129), South Africa committed itself to:

- rationalising some 12 800 industrial tariffs into no more than 1 000;
- cutting industrial tariffs by an average of 33 per cent by 1999, with maximum levels for consumer goods set at 30 per cent, for capital goods at 15 per cent and for raw materials at 5 per cent.
- cutting agricultural tariffs by an average of 36 per cent over 10 years;
- scaling down textile tariffs over 12 years to a maximum of 25-24 per cent, depending on the product;
- phasing out local content measures in the automobile industry; and

- terminating its General Export Incentive Scheme (GEIS) exports subsidies by 1997.

Moreover, as Bell (1997:74) highlights concerning the manufactured goods, South Africa negotiated significant exceptions in the cases of the textiles/clothing and motor vehicle industries. In the textile/clothing industry a 12-year, rather than the normal five-year, adjustment period, and a maximum tariff level of 45 per cent instead of 30 per cent, were allowed. In the case of motor vehicle industry, an eight-year adjustment period, and a maximum tariff level of 50 per cent were negotiated (Bell, 1997:74).

While it is arguable that the above trade liberalisation measures became fiercely imposed and implemented by the ANC-led government's Department of Trade and Industry after the 1994 period, it is necessary to recall that to a greater extent, they do reflect and indeed represent the deepening of free-market policies underpinned by the approach of export-led growth which was introduced to the ANC leadership by, though not exclusively, the COSATU-linked ISP. This is because, after reaching the conclusion that the poor performance of the South African manufacturing sector in the 1970s and 1980s can be transformed into positive effects of employment creation, increased investment, improved trade performance and by raising its productivity levels, the ISP suggested an adoption of supply-side mechanisms in the development of South Africa's trade policy.

This was to be facilitated through the strategy of export-led growth, the framework which is now being used by the present GEAR strategy in order to stimulate the potential productivity of the manufacturing sector after having been distorted by the apartheid government's protective policies which relied heavily on exporting primary products (ISP, 1994:50). It thus concludes:

'South African manufacturing needs to become more specialised by focusing on areas in which South Africa is advantaged or in which advantage may be created: areas where skill, design capability, our rich and varied natural resource base, and sophisticated financial and physical infrastructure are central'³⁸

In the same vein, GEAR states that 'the unreliability of raw material exports in the 1980s persuaded policy-makers that the central thrust of trade and industrial policy had to be the pursuit of employment creating international competitiveness (Department of Finance, 1996:13). It then indicates that 'this entails a shift away from demand-side interventions, such as tariffs and subsidies, which raised prices received by producers, to supply measures designed to lower unit

costs and expenditure progress up the value chain' (Department of Finance, 1996:13).

Of course, the ISP was also aware that outright trade liberalisation will generate negative results for the South African economy. Acknowledging that the commitments entered into by South Africa in terms of the Uruguay Round will limit the freedom of policy makers to continue to protect producers in the domestic market, the ISP warned that 'GATT has effectively imposed a global trade regime as the parameter to which national trade and industrial policies have to conform'; and that one of the elements of their 'new trade policy' is: 'A trade policy, the terms of which are effectively set by our adherence to GATT' (Bell, 1995:18). What comes out of such strategy is then a trade policy which is dictated by South Africa's membership to GATT. In this vein, the GATT gained the upper hand in influencing the ANC government to adopt liberalisation policies and opening the economy to foreign competition.

The idea that South Africa has to 'bargain' in the global trade by focusing on areas that seem to be advantageous to itself assumes that the GATT prescriptions can be easily manipulated. It also assumes that the world out there, riddled with conflictual relations of trade as most countries compete with each in accessing the 'fruits' of the now liberalised global trade, would be friendly to South Africa. These assumptions premise from the fact that the ISP's emphasis on export expansion rests on [its] belief in the virtues of import liberalisation rather than simply on the constraints imposed by GATT (Bell, 1995:19). This was clearly reflected in its report when stating that 'firstly, GATT clearly does not impose constraints in respect of continued protection, and the encouragement of further import substitution...there is room for manoeuvre within the GATT parameters...the capacity for manoeuvre within GATT — and the prospects for extending it — is a key point of entry for national policymakers' (Joffe, et al, 1995:52).

The ISP's approach which has served as the basis for the Department of Trade and Industry to implement liberalisation policies in accordance with the GATT agreement can be explained with reference to the concept of 'the principle of comparative advantage', firstly developed by Ricardo in 1817. This concept, which now appears to be the basic one in the whole of international trade theory, states that a country should specialise in producing and exporting those products in which it has a comparative advantage, or relative cost, advantage compared with other countries and should import those goods in which it has a comparative disadvantage (Dicken, 1998:74).

The underlying assumption about 'the principle of comparative advantage' is that out of such

specialisation, a country will accumulate greater benefits. In the context of South Africa, the position within the ANC circles appears to be that the entry of this country into the global market should be based on a twofold strategy: reducing tariffs which will encourage and 'woo' investors into the country; and the opening up of opportunities for the manufacturing sector to gain competitive advantages in the world trade. This is embodied within the GEAR strategy's commitment to the conservative policy of 'redistribution through growth or 'trickle down', a belief that if a country grows for a sustained period, it can deliver on redistribution. This approach has been propagated by both the IMF and the World Bank and the ANC government became to be influenced by these institutions and as such begins to liberalise the South African economy with the 'hope' that at though in the short-medium term there will be some negative consequences, in the long-term the economy will grow and this will enable the government to redistribute resources.

In a move which 'neglected' the South African labour movement's warning in its discussion document aiming at influencing the ANC government's approach to economic policy, the *Social Equity and Job Creation*, Alec Erwin's Department of Trade and Industry pursues an aggressive programme of trade liberalisation. In the *Social Equity and Job Creation*, labour argues that 'the trade union movement accepts the need to open up the economy, but we require a process that is carefully managed and sequenced in order to avoid job losses' (1996:14). It further states that 'we need a pragmatic programme which lowers tariffs carefully, and not faster than required under the terms of the GATT' and that 'within the context of our international commitments, trade liberalisation should be preceded by industry agreed active industrial policies... with the introduction of active industrial policy and human resource development measures in sectors affected by major trade liberalisation provision' (1996:14-15).

In August 1994, the Department of Trade and Industry announced deep tariff reductions in the clothing and textile, and automobile industries that went far beyond those demanded under GATT (Marais, 1998:129). As Marais (1998:129) stresses, at the time, the cuts did not slot into a strategic package, aimed at coaxing these industries into a new or more competitive directions but a 'sheer economic Darwinism'.

However, new proposals were announced in June 1995 for motor and textiles industries which proposed major tariff cuts by the year 2003, giving manufacturers just eight years to adjust to such a free trade environment but with little or no state support for necessary restructuring, rather

than the 1 years agreed to by the WTO and GATT (Michie and Padayachee, 1997:20)

In January 1996 SACTWU's assistant general secretary, Ebrahim Patel, indicated that up to 100 000 jobs could be lost in the clothing and textile industries if the government did not support them during the tariff reduction phase (SAIRR survey, 1997/8:303). Patel's concern was in fact demonstrating the paradoxical nature of the ANC's assumption that it can manoeuvre the interrelated influence of the IMF/World and GATT/WTO. This is because, during its response to some of the labour movement's concerns about job losses as a result of trade liberalisation, the government had committed itself to financing a social adjustment programme and providing financial incentives to companies to encourage them to absorb retrenched workers.

Yet, in its commitment it failed to anticipate that these measures which were aimed at addressing the negative outcomes of GATT's policy implications to the labour market will, if pursued, contradict some of the agreements the government had already entered into with the IMF and the World Bank. This contradiction became evident when the government realises that it cannot implement these commitments because of fiscal constraints — an indication that it was prepared to bury some of Keynesian thinking within both the MERG and the RDP which were proposing that the government should invest in public works and other programmes to create jobs. The failure by the government to implement support mechanism in cases of job losses as a result of trade liberalisation clearly reflects how influential had been the supply-side economics of the IMF, World Bank, GATT and the WTO to South African policy makers in government.

In fact, Alec Erwin went further to the extent of dismissing any signs of the negative impact of trade liberalisation by arguing that the suggestion that 100 000 jobs would be shed as a result of trade tariffs reduction was wildly speculative and reiterated that 'tariffs cuts had been necessary in terms of South Africa's obligations to the WTO and that the government was trying to promote competitiveness but recognises that there will be pain and will try to ensure that the pain is shared' (*Business Day*, 21 February 1996).

Moreover, among other adjustments, a range of other relaxation of exchange controls were announced by the government in 1996 and 1997, including those which allow foreign investors greater access to domestic credit, enabling finance houses to engage in asset swaps with foreign companies and permitting them to make larger foreign currency transfers, and further relaxing controls on residents (Marais, 1998:130). From crude statistical point of view, the Department of

Trade and Industry became obsessed with the growth of exports which strongly increased from 1994 as the economy became reintegrated internationally and thus assumes that this growth will logically contribute to addressing the legacy of the past, not via the economic paths as proposed by Keynesian policy documents such as the MERG or the RDP, but through neo-liberal supply-side approaches embodied within both the RDP White Paper and the GEAR strategy.

This optimism led Alec Erwin to bravely declares that 'tariff cuts would take place in the clothing and the textile industries more quickly through a period of seven years than twelve years as expected by the WTO (*Mail and Guardian*, 16 August 1996). Indeed, the negative implications of the government's trade liberalisation policies has not only been felt by the South African working class alone. The private sector, especially those companies which operate outside the so-called 'conglomerates' network', has also been affected negatively.

For instance, in June 1996 the Footwear Manufacturers' Association of South Africa said that increased imports had forced the manufacturers to eliminate more than 4 000 jobs in the first three months of 1996 and that this led to the closing down of twenty-five factories. The executive director of the association alleged that this was a result of 'cheap' footwear imports from the People's Republic of China which were 'killing the local industry' (*Business Day*, 5 June 1996). In a more intervening fashion, an emergency meeting was held between the Department of Trade and Industry and a Chinese trade delegation with a view to addressing the complaints but in vain (*The Star*, 14 August 1996)

Thus, it is arguable that the GATT and the WTO has, through the Uruguay round, influenced the policy making in South Africa. Yet, it should also be noted that these actors arrived at a time when interest towards neo-liberal policies was already being nurtured in South Africa by the so-called 'progressive economists'. In the last section of this Chapter below, the thesis examines how this interest was also stimulated through the South Africa private sector's series of scenario planning exercises which began in the mid-1980s.

4.2.2.3. The Impact of the South African Private Sector's 'Scenario Planning Exercises' on the ANC's Economic Policy Thinking

It has been indicated in Chapter 3 that respondents such as Stephen Gelb advises that the business sector's scenario planning exercises has not contributed significantly to the ANC's economic policy shifts. Yet, analysts such as Bond (1996; 1999) and Marais (1998) observe that these exercises has indeed contributed to what may be called the 'elite' process of policy making in South Africa. What these analysts take into account is the extent to which the business sector has been engaging the ANC since the 1980s.

Scenario planning, according to Anglo-American's leading strategist, Clem Sunter, 'is a story of what can happen' (1996). Its basic presumption is that the world offers a universe of possibilities, any of which may materialise. Similarly, other business-minded analysts such as Schlemmer (1993) argues that scenario-based planning came about because it was realised that the complex futures cannot be forecasted, of which the basic principle is that of accepting uncertainty, but with an attempt to understand and define its limits.

While these exercises have been narrowly confined to predicting the performance of various companies with much emphasis on strategic planning to deal with market uncertainties, the ANC's preoccupation with the need to involve and entrench the role of the private sector in the process of consolidating democracy in South Africa meant that it has to 'listen' quite carefully to some of the economic policy predictions being made by these scenario planning exercise. Thus, as it is a typical situation with any process of interaction, what this implies then, is the fact that there was no way in which the ANC will not be influenced during its participation in these exercises.

The first of these scenario planning exercises was the Nedcor/Old Mutual's *Prospects for a Successful Transition*. This was followed by the insurance conglomerate Sanlam's Platform for Investment scenario and then later on followed by the *Mont Fleur Scenarios* which is described by Allan Hirsh as 'social democratic'³⁹ (Marais, 1998:150). Marais (1998) argues that while there is a need to acknowledge that these scenarios were not the same, it is however important to also emphasise that they all shared the view that economic policy had to become grounded in relationships of trust, negotiations and consensus building. Similarly, Bond (1996:17) summarises the context within which these scenario planning were taking place as follows:

'...the early 1990s required from South Africa's elites a special effort: they had to learn each others' basic objectives, philosophy and discourses, and they had to make concessions...to build trust between negotiating parties with once vigorously opposed interests. Gradually, across many sectors of society, a kind of 'coerced harmony' was imposed. Scenario planning brainstorming became commonplace for precisely this reason'

Thus, in the context of policy making, the scenario planning were directed at trying to identify major forces influencing the South African political economy; identifying the major uncertainties pertaining to the process of transition and then trying to come up with possible solutions to the types of problems that are being anticipated. At the surface of it, the business re-asserted its role in the policy making by focusing on key challenges of the ANC government in areas such as housing, the provision of electricity and other social services. Of course, the idea was to create a picture in which the ANC will find it hard to explain how its envisaged RDP was to be achieved.

Underlying that process was a set of elementary truism, notably the need for macroeconomic stringency, restraint in efforts of social restructuring, an outward-oriented economy and a facilitating (as opposed to regulating) state (Marais, 1998:150). These type of policy proposals remained reminiscent to the NP's NEM policy document and were also running parallel to the IMF's 1992 policy proposals made in its researched report called *Economic Policies for a New South Africa*. As Marais (1998) observes, the common thrust in these scenario planning exercise was to demonise as 'macroeconomic populism' any attempt to ground future economic policy in the mutually reinforcing dynamic of growth and redistribution.

From an analytical point of view, these scenario planning has managed to influence the ANC to abandon some of its traditional position such as state intervention in the economy. Parallel, to these scenario planning exercises, were other business engagement of the ANC through policy discussion documents. Notable of these had been Sacob's *Economic Options for South Africa* which explicitly argued that 'free enterprise was the 'remedy for poverty and ensured economic growth' (Marais, 1998). It was thus through these exercises that the ANC accepted to drop down the idea of '*growth through redistribution*'

The significance of these exercises in the analysis of the South African policy process lies with the fact that they have managed to relocate the private sector as the central actor in the process.

Indeed, the transformation of the RDP Base Document into an RDP White Paper, and the ultimate adoption of a broad neo-liberal macroeconomic framework in the form of GEAR may be explained with reference to the interaction the ANC had with the business through these exercises. Logically, this implies that some of the 'speech-writing' exercises by some of the MERG researchers were being outweighed during these scenario planning activities. It could thus be concluded that the secretive process which led to GEAR is a reflection of how the ANC leadership is increasingly developing an interest in the utilisation of experts in the formulation of policy, than it was initially hoped that it will involve the masses, especially its alliance partners.

This Chapter has clearly examined processes leading to the formulation of the GEAR strategy by the ANC. It has also examined how new actors has replaced the old ones in the policy process after the 1994 elections. The argument being made in this Chapter is that this process involved the marginalisation of certain actors in favour of new ones. Of course, it has to be reiterated that there has been a number of factors which 'paved' way for the manipulation of the ANC by these new actors. These factors are being examined in the succeeding Chapter.

NOTES FOR CHAPTER 4

¹ Author's interview with Patrick Bond, 28/11/1998

² Author's interview with Jeremy Cronin, 16/11/1998

³ In SA, NEDLAC is one such forum. It should be noted that this institution is a successor of the NEF which was established in 1992 — consisting of labour, business and the government's National Manpower Commission.

⁴ For an interesting examination of how these opportunities were closed off in the immediate post-1994 period see Bond (1999) *Elite Transition*, Part II chapters 3 and 4; and also Götz, G. 'Shoot at anything that flies' in Adler and Webster (forthcoming)

⁵ Indeed, most critics conclude that it was basically the COSATU-linked ISP that initiated routes for the adoption of neo-liberal economic policy framework by the ANC. This is usually read with reference to the ISP's emphasis on making SA a competitive economy through skills acquisition by the country's workforce. While neo-liberal undertones of these calls are not inherent to neo-liberal agenda, at least in the short-term, they are however, in the long-term implying that the route for redistribution could only be realised after increased levels of economic growth. This is in contrast to the initial approach of '*growth through redistribution*' as proposed by COSATU. See for instance the ISP report in the South African Labour Bulletin, Vol.18 No.1, 1992 pages 48-75. Also see an illustration of this point by Marais (1998)'s argument that the endorsement of an export-led growth path stemmed not simply from 'cajoling by business', but from within the left's ranks by COSATU-initiated ISE, pages 155-158

⁶ For a detailed analysis of these difficulties, see Tom Lodge's 'Policy Process within the ANC and the Tripartite Alliance' (forthcoming), *Politikon*, May 1999

⁷ Author's interview with Lindsay Falakov, 13/10/1998

⁸ Author's interview with Jeremy Cronin, 16/11/1998

⁹ Author's interview with Stephen Gelb, 14/08/1998

¹⁰ Author's interview with an anonymous respondent, 20/10/1998

¹¹ Author's interview with Jeremy Cronin, 16/11/1998

¹² In fact, Padayachee (1998:441) notes that of the progressive economists, Stephen Gelb, Dave Lewis, Alan Hirsh and Brian Kahn, all participated in think-tanks from the Economic Trends research group Phase I or II, via MERG to GEAR. Lewis and Hirsh were also involved in the Industrial Strategy Project. Andre Roux was involved in MERG, the RDP White Paper and GEAR, Dirk van Seventer and Servaas van den Berg were involved in aspects of MERG's works.

¹³ Author's interview with Richard Ketley, 8/10/1998

¹⁴ Author's interview with Richard Ketley, 8/10/1998

¹⁵ Author's interview with Alan Hirsh, 6/08/1998

¹⁶ Author's interview with Daleem Smal and Dejager Shaun

¹⁷ Author's interview with Daleem Smal and Dejager Shaun

¹⁸ Author's interview with Alan Hirsh, 6/08/1998

¹⁹ Author's interview with Guy Mhone, 18/08/1998

²⁰ Author's interviews with Alan Hirsh, 6/08/1998 and Stephen Gelb, 14/08/1998

²¹ Author's interview with Jeremy Cronin, 16/11/1998

²² Author's interview with Jeremy Cronin, 16/11/1998

²³ The distinction between the RDP Base Document and the RDP White Paper lies in the fact that the former was advocating Keynesian economic framework while the latter called for an adoption of 'free market principles. For a detailed analysis of this see Adelzadeh and Padayachee(1994) 'The RDP White Paper: Reconstruction of a Development Vision'

²⁴ The year 1990 is generally seen as the turning point in South African politics, more especially on how this country's international relations was to be shaped by both national and global factors.

²⁵ One thing that should be recalled about South Africa's relations with the IMF is the fact that the former's membership to the latter coincided with the nationalist Party's rule led by Jan Smuts' last term as the United Party premier. Smuts displayed his 'renowned international statesmanship' in the creation of the United Nations system which included the IMF and the World Bank. See for instance Padayachee (1988:37-39).

²⁶ Author's interview with an anonymous respondent, 20/10/1998

²⁷ Author's interview with Lindsay Falakov, 13/10/1998

²⁸ Author's interview with Alan Hirsh, 6/08/1998

²⁹ Author's interview with Alan Hirsh, 6/08/1998

³⁰ Also see Cohen, M (1992), 'Comment', in N. Harris (ed), Cities in the 1990s, London, UCL Press

³¹ Author's interview with Jeremy Cronin, 16/11/1998

³² This is a claim made by Tito Mboweni. See Tom Lodge's forthcoming 'Policy Process within the ANC and the Tripartite Alliance.

³³ African National Congress (1994) *President's Speech to the 49th ANC Conference*, Bloemfontein

³⁴ Author's interview with Jeremy Cronin, 16/11/1998

³⁵ This is because in its response to the RDP White Paper, COSATU declared that the RDP White Paper will reduce the RDP to no more than a social net to cushion the impact of job losses and poverty

³⁶ Note the dialectical relationship between the need for fiscal discipline and its inherent assumption that it could be used to addresses the needs of the majority. As used by Naidoo, the 'majority of our people' in this context implicitly connotes and supports the argument that organisations like COSATU are only interested in defending their individualistic sectoral class interests in contrast those of the mass of unemployed and poor people in general. This is the charge against COSATU being made by most ANC people in government, included being President Mandela himself.

³⁷ It should be noted that while the ANC's position by then was still being influenced by COSATU's linked Industrial Strategy Project — which it is presently being evaluated as the one that introduced 'neo-liberal' economics to the ANC, the ANC was nevertheless still concerned about the implications of opening South Africa to foreign competition in a situation whereby the country was heavily relying on a cheap, unskilled labour working in a labour-intensive economy. Thus, the protection of the domestic companies against the ruins of global competitiveness, probably with an intention of saving jobs, was still high on its industrial policy options for a post-apartheid society.

³⁸ In this context, manufacturing was seen as the potential sector for making this country to become competitive in the global market. Arguably, this strategy is now being pursued in government by the Department of Trade and Industry. It clearly reflects how the 'progressive economists' are able to re-invent the 'wheel' that has been lost, though not in toto, during the MERG process. Moreover, it should be noted that critics like Marais (1998) do not support most of the ISP's claims such as the argument that this country's economy has been protected from global competition. See Marais (1998) Chapter Four.

³⁹ Author's interview with Alan Hirsh, 6/08/1998

CHAPTER 5

EXPLAINING THE ECONOMIC POLICY SHIFTS: FROM 'GRAND PROGRAMMATIC' TO 'PRIVATIZED INDIVIDUAL CHOICE' APPROACH'

5.1. INTRODUCTION

Attempts to explain the nature of the ANC's economic policy evolution from what Padayachee (1997:42) calls a shift from a 'grand programmatic approach' (variously described as socialist, interventionist, development-oriented) to a 'privatised individual choice approach (free-market, neo-liberal, growth-oriented) has saturated much of the literary work on the South African transition. As indicated earlier on, most of these explanations concern themselves with the substantive aspects of the policy shifts. In this chapter the thesis provides a different approach. Instead of focusing primarily on the content, it will explain the shifts through an examination of the processes that contributed to them.

An examination of how the ANC economic policy shifts came about has been done in both Chapters 3 and 4. In both these Chapters, an attempt was made to locate the analysis within what the thesis conceives as something that also takes place in the global context. This has been described in detail in Chapter 1 which explored the vicious circle of global policy shifts from Liberalism-to-Keynesianism-to-neo-liberalism. Instead of regurgitating what has been said so far, both in the thesis and in other scholarly journals and books about these shifts, this chapter will use Hood (1994)'s approach of 'explaining economic policy reversals' and the reasons or forces that appears to be 'propelling' these changes.

Hood's analysis of the policy shift in the OECD countries over the 1980s will thus ultimately be tested against the South African experience. In developing a rather rigorous, complex and sophisticated account, this chapter will demonstrate the need to transcend the conception of transition as merely referring to a straight-forward, linear political process from one form of government to another.

5.2. HOOD'S FRAMEWORK OF ANALYSIS AND ITS MANIFESTATION IN THE POLICY PROCESS IN SOUTH AFRICA

In his book about explanations of the major changes in public policy, Hood (1994) offers an analogy of a dinosaur. He begins out by strongly declaring that

'this book is about some of the 'dinosaurs' of economic policy which apparently became extinct in many OECD countries over the 1980s. Like the stegosaurus, the diplodocus and the tyrannosaurus, they are familiar group: Keynesian full employment policy, public enterprise, 'classical' styles of business regulation, progressive income tax structures and traditional public management styles (1994:v).

Hood's analogy evolves around the manner in which the dinosaurs, said to have dominated the earth for nearly 140 million years disappeared mysteriously in an 'astonishing' unpredicted manner. The puzzle he tries to deal with in his analogy of dinosaur is to explain why certain policies that dominated the world — which have been taken as normal, acceptable and a way of life — become extinct. Moreover, he went further to clarify his dinosaur analogy by acknowledging that, in contrast to 'biological extinction', the case of economic policies appears to be different because some of the old policies are being reborn in a newly extended form. His clarification does not, as he also recognises, necessarily rule out the fact that there has been a dramatic shift in the policy paradigm and discourse, which to a greater extent reflects a shift of 'devotion' from state-regulated economies to the free-market policies. How does he then explain these shifts?

Hood suggests that four types of explanations can be useful for examining how these changes came about. Firstly, that policy reversal comes mainly from the force of new ideas, which succeed in upsetting the status quo in some way; second, that policy reversal comes mainly from the pressure of interests, which succeed in achieving changes that suit their purposes; thirdly, that policy reversal comes mainly from changes in social habitat which make old policies obsolete in the face of new conditions and; fourthly, that policy reversal comes from 'inside', with policies and institutions destroying themselves rather than being destroyed from outside (Hood, 1994:4)

It is important to note that Hood does not give primacy or supremacy to any of these four possible

explanations. His argument is that all four explanations are intertwined and interacting with each other (Hood, 1994:4).

Now, to what extent can one employ Hood's analysis to explain the ANC's economic policy shift in South Africa?

In their analysis of the policy shifts in the South African situation, Michie and Padayachee (1997:228-229) contend that, at least, the first three explanations offered by Hood can be applicable. Beginning with the first — the force of new ideas — they allude to the fact that leading political figures within the ANC, especially after the 1990s, had to confront neo-liberal ideas which were vigorously fed to them by powerful agents such as international financial institutions and Western governments. Accordingly, they argue this 'process of feeding the ANC leadership with neo-liberal ideas' has been permeated by the fact that the ANC never had any strong economic policy to counteract the policies that were 'suggested' by these powerful institutions.

The argument that the ANC never had any blue-printed economic policy beyond the 'vaguely defined clauses of the 1955 Freedom Charter which could have been used to deal with the international financial institutions' 'imposed' neo-liberal ideas is much more teleological and at the same time an adherence to the 'modernisation theory' school of thought for explaining social change. Implicit within Michie and Padayachee (1997)'s analysis, two paradoxical explanations can be deduced.

Firstly, their argument is broadly, if interrogated in a sophisticated manner, implicitly trapped between pessimism and optimism — something which is supposedly used deliberately to reinforce the widespread argument that the ANC-government was caught up in a dilemma. At the level of pessimism, Michie and Padayachee (1997) appear to accept that the influential powers, if not 'importation', of neo-liberal ideas into the ANC leadership — given both the perceived objective reality of the triumph of neo-liberal ideology across the globe and the lack of 'antibodies' the ANC to counteract these forces — was something logical and inevitable. The essential implication of this implicit argument is that the ANC encountered 'neo-liberalism' as something that has never been exposed to itself before: just like a discovery!

Moreover, consciously or unconsciously, the above pessimism is blurred and indeed vitiated by a

very powerfully hidden sense of optimism. The underlying assumption behind this optimism appears to go like this: if the ANC could have developed a 'strong' economic policy long before 1990 (in whatever form undefined and possibly as an ever-ready guard against neo-liberal influences), it could have managed to avoid the influential ideas of neo-liberalism. Taken together, these aspects of pessimism and optimism implicit within Michie and Padayachee (1997)'s attempt to employ Hood (1995)'s framework in their account of how 'new' ideas have been playing significant role in influencing the ANC's economic policy amounts to what one could term teleology. Of course, Michie and Padayachee (1997) are not alone in this line of argument. Critics such as Marais (1998) also took 'theoretical refuge' in explaining the ANC's policy shifts by putting emphasis on the lack of economic policy by the ANC for a period of close to eight decades.

How does one begin to offer an alternative conception of the role of 'new' ideas in explaining the ANC's policy shifts? The starting point will be to contend that what Michie and Padayachee (1997:228) conceive as 'the hope [by the ANC] that by adopting neo-liberal policies, foreign funders and investors, impressed by the new government's recognition of the 'realities of the new world order' would invest massively in the economy, should in fact be seen as the ANC's choice not by virtue of having discovered 'new ideas', but as a reflection of how complex dynamics of power relations and interactions worked themselves out in the policy making process by and between different actors. This is what is at the core of Walt (1994)'s framework of analysing the policy process and in the context of this thesis, the ANC, as both an organisation and as a party leading the GNU, is not conceived as a passive agent that accepted the structural imposition of neo-liberalism's hegemony into South Africa.

While one should be careful not to romanticise the role being played by 'economists' ideas as climate meteorites (Hood, 1994): in influencing social and economic changes, it is however extremely important to indicate that this role is inherently located within a complex web of relationships between economic theory, economic policy and economic development.

Hall (1989:361) has eloquently captured this point when deliberately evoking the long-standing theoretical feud between the base and the superstructure debate. He reminds:

'Ideas are commonly seen as part of the superstructure rather than the base of political economy or portrayed as so much froth on the long waves of economic development. Even the study of politics has

recently moved away from an emphasis on ideas, as structuralist accounts of public policy and political change have superseded more traditional lines of analysis. [However], to neglect the role of ideas in political economy is to miss an important component of the economic and political worlds. It is ideas, in the form of economic theories and the policies developed from them, that enable national leaders to chart a course through turbulent economic times, and ideas about what is efficient, expedient, and just that motivate the movement from one line of policy to the other' (Hall, 1989:361)

The above quotation captures what has been taking place in South Africa from the late 1980s. In the past South Africa economics had been understood as those which perpetuate inequality through the process of racial accumulation or 'racial capitalism'¹. The hegemonic ideology by then was that of 'neo-Marxists' or 'Revisionists' who argued strongly that racial policies like segregation and apartheid were functional to the development of capitalism in South Africa (Wolpe, 1970; Johnstone, 1970; Legassick, 1974; Kaplan, Morris and O'Meara, 1976; Saul and Gelb, 1981). Developing from this analysis, it was assumed that fundamental transformation in South Africa should start off by transforming the social relations of production (the base) which could then, from a Marxist perspective, affect what was taking place at the level of social institutions such as the state (at the superstructure level). In this connection, the state was seen as serving the interests of the white minority and therefore had to be transformed into one which will have to 'serve' all people in South Africa.

Yet, in the late 1980s the above ideology began to decline. New discourses and ideological paradigm shift within the MDM started to emerge as to how new policies of transformation should be developed and approached. While it has been argued that these new ideas were quickly adopted by the ANC leadership and to a greater extent entrenched by the so-called 'progressive economists' into the ANC, it is however arguable that the process was also taking place at the broad societal level. This will be substantiated in the succeeding sections.

With regard to Hood's second explanation that policy reversal comes mainly from the pressure of interests which succeed in achieving changes that suit their purpose, Michie and Padayachee (1997:228) argue that at the time of negotiations the ANC claimed to represent the (mainly black) working class and the poor and marginalised. However, they note that a pressure was surmounted to the organisation to include representation of a wider section of black society, including a growing black middle class of professionals and businesspeople; and it also faced the pressure of having to appeal to whites, Indians and coloureds. Indeed, the interests of these 'new class' force

were not the same as those of the black working class and the implications of how this was to affect the ANC's economic policy orientation was greatly felt in the run up to the 1994 election and more in the years following the ANC's victory. The last section of Chapter 4 has demonstrated how the business sector manipulated this 'broad church' character of the ANC.

Moreover, it is arguable that other structural social development processes, included debates about black empowerment programmes and affirmative action policies had contributed to the ANC's economic policy shifts. The opening up of the 'political opportunity structure' in South Africa meant that policy debates was not to be confined only to politicians in government, but, to a greater extent also at the micro-economic level in which individuals and different layers of social strata were able to, directly or indirectly, harness their respective interests into the ANC's broad macro-economic approach. As Crankshaw (1996:636) argues, the deracialisation of the wage gap and the advancement of blacks into job categories that were reserved for whites could be used, as it has been the case elsewhere, to explain why large sections of the populations of advanced capitalist countries did not support working class political parties. In the South African context, the ANC's identity as a 'pro-working class' political organisation was greatly affected and indeed challenged by the changing dynamics of blacks' social strata in society.

For an example, in the early 1970s the revisionists' argument that the wage gap between white and African workers would widened during the preceding decade of the 1960s was supported by evidence (Crankshaw, 1996:634). However, new evidence provided respectively by Lipton (1976) and Natrass (1977) countered this revisionists argument in the mid-1970s by arguing that the wage gap between white and African workers had narrowed across all sectors between mid-1964 and mid-1974. In a study that examined the overall extent and pattern of what he calls 'African advancement' in formal urban employment since the 1960s, Crankshaw (1996) found that most blacks are making some entry into what was perceived as white occupations. These opened opportunities of 'African advancement' meant that the ANC's traditional source of support -- which was the black illiterate, unskilled, non-professional and low-wage earners -- was also undergoing significant transformation.

The development of the 'black petit-bourgeoisie' was accompanied by the development of new interests which saw access to job opportunities and upward mobility as some of the priorities that should dominate the ANC's economic policy outlook. In tapping into the support of these new class forces, the ANC opted to abandon some of its traditional economic policy positions such as

nationalisation. By so doing, the ANC was offering a compromise between its historical relationship with the black trade union movement like COSATU and the emerging black petit-bourgeoisie on the one hand, and on the other hand between COSATU and the broad [predominantly white] capital interest groups in South Africa.

The above two explanations of policy reversal as identified by Hood (1994) — the role of new ideas and the re-assertion of new interests — did apply in the South Africa situation. Yet, it must be emphasised that at least in the context of South African policy making, the role of 'new ideas' does not exclusively refer to an uncritical adoption and adaptation to neo-liberalism by key policy makers in the ANC government. Instead, apart from the process having to resemble a 'diffusionist' trend from outside, it also meant, and indeed coincided with the deepening of social democracy within the left in South Africa. In this context, the social democratic paradigm takes as its objective the need to reconceptualise social change away from the liberation movement's heritage of viewing change as a struggle to capture the commanding heights of the economy through nationalisation policies.

The coincident between the role of 'new ideas' from outside and those from inside the liberation movement was emphasised by Cronin (1994) in his attempt to 'clarify' that the ANC has not 'sold-out':

'It is essential that we engage critically with our theoretical heritage. There are many assumptions within this heritage which are plainly inadequate to our present situation. Over the past three to four years, fortunately, a number of interventions have begun to offer a theoretical perspective, from within a revolutionary socialist standpoint, that is more adequate to our reality, and to our often un- or maltheorised practice ... [an intervention which] seeks to avoid the twin danger of mere reformism, on the one hand, and the subordination of everything to the logic of a grand moment, the panacea that never comes' (Cronin, 1994:34).

However, Boreham *et al* (1996) argues that for a variety of theoretical, methodological and practical reasons, the social democratic account of political developments has remained imprecise. This is because, while labour movement mobilisation is often held to be a driving force behind policy, the relative roles of a number of different forces, agencies and arrangements remains obscured within this broad notion of labour politics (Boheman *et al*, 1996). Thus, though the social democratic paradigm has been the central dominant approach used by the South African labour movement and indeed enabled the latter to predict the form of electoral politics in

which it was to emerge as an influential force in shaping the transition, it appears that the substance of its assumed role was left uninterrogated. This is with specific reference to how the labour movement's assumed role was to relate to the structural changes that were to characterise the South African society at large as a result of the opened political and economic opportunity structure pending the demise of apartheid policies.

This became much more evident when both the role of new ideas and the re-assertion of new interests are combined with Hood's third explanation which holds that policy reversal comes mainly from changes in social habitat which make old policies obsolete in the face of new conditions.

As indicated earlier on, South Africa's transition coincided with the process of globalisation and the perceived hegemony of neo-liberalism. Webster and Adler (1998) captured the implications of this context to the South African policy making processes when indicating that 'if Mandela had entered prison at a time when nationalisation was an article faith, he was released into a world where monetarism and its obsession with inflation and the reduction in state expenditure had become the new orthodoxy'. In the same vein, Michie and Padayachee (1997:229) observe that it was not unusual in the early 1990s to hear senior ANC spokespersons arguing that the world had changed, and that those arguing for more radical or alternative economic solutions in this new globalised context were simply living in a bygone age.

In order to provide an appropriate analysis of how both new ideas, pressure of 'competing' interests and the changes in social habitat contributed to the ANC's economic policy shifts, it is significant to examine how the transition is conceptualised in South Africa.

5.3. TRANSITION THEORY AND THE NATURE OF THE SOUTH AFRICAN TRANSITION

Theories of transition hold that the process from authoritarian rule to democracy comes as a result of compromises which had to be made by political parties involved in negotiations during the transition period. For Przeworski (1991), who is one of the leading critiques of transition theory, transition begins when there is a mutually perceived sense of stalemate. Protagonists in this instance concede to each other about the inevitability of the perceived stalemate and offered themselves for negotiations in order to resolve their differences. According to Przeworski

(1991:85), 'protagonists agree to terminate conflicts...because they fear that a continuation of [that] may lead to civil war that will be both collectively and individually threatening'.

Relevant to this thesis is Przeworski's argument that the process of reforms, and of course its success, becomes that of elite-pacting in which the solution is found in an alliance between Reformers inside the authoritarian block and the moderates in the pro-democratic forces. The Reformers distance themselves from Hardliners within their block while the Moderates distance themselves from the Radicals within their block. In the former connection, Reformers are quite sceptical and show distrust to the Hardliners who are perceived as too conservative to threaten prospects for social change precisely because they fear that the initiated process of reforms will dislodge and dispossess them off their privileges, while in the latter connection the Moderates are sceptical that the Radicals are too 'populist' in demanding changes that are seen as beyond the scope and capacity of the terms of the negotiations.

The process of elite-pacting, argues Ginsburg (1996), premises from two theoretical assumptions. Firstly, that negotiations cannot be conducted by the masses themselves...but must be entered into on their behalf by a leadership (elite) that ostensibly speaks for them. Secondly, that it is assumed that not all members of the contending parties factions are enamoured with the idea of negotiations or pacting. Taken together, these assumptions imply that the policy process which is aimed at influencing the outcomes of the negotiations remains the realm of the few elite, a top-down approach which sidelines participation by organs of civil society from below.

Indeed Przeworski (1991) himself summarises the potential problem inherent within this type of policy process when questioning that:

'the central question concerning transitions is whether they lead to consolidated democracy, that is, system in which the politically relevant forces subject their values and interests to the uncertain interplay of democratic institutions and comply with the outcome of the democratic process'

One of his conclusions is that, pending the compromises that each of the protagonists had to make in exchange for democratic prospects, these processes resulted in a 'shrunk' notion democracy. Yet, Przeworski (1991) conceded that the essential trick involved in any successful consolidation of democracy is the ability to institutionalise conflict (Habib, 1996:66). This involves the establishment of institutions that offer the relevant political forces 'a prospect of eventually

advancing their interests that is sufficient to incite them to comply with immediately unfavourable outcomes' (Przeworski, 1991:19; Habib, 1996:66).

The applicability of Pzeworski's analysis to explain the transition in South Africa has been subjected to criticisms by different scholars of social policy analysis. His concept of 'elite-pacting' has been interrogated and indeed dismissed as one of the tools of analysis for explaining both the nature, content and the process of the South African transition from apartheid to democracy. Yet, as Habib (1996) observes, the dominant approach in the South African literature concerned with the transition underway in the country is a generic one — evolving around the tension on whether to treat the behaviour and decisions of elites as the sole independent variable, or broaden the analytical prism to incorporate social movements and other social actors as independent variables to influence the openings of the transition, its substantive content, and the prospects of its consolidation.

He goes further to highlight that 'this methodological divide has taken the form of a conduit between mainstream (mainly liberal) and radical (mainly Marxist) scholars: the former, as in Adam and Moodley (1993), Friedman (1993), Rantete and Giliomee (1972), Lee and Schlemmer (1991, van Zyl Slabbert (1992), Du Toit (1990) and Welsh (1993), tend to focus their analysis on the major political parties, and the political pacts that were being forged in the Multi-Party Negotiating Forum. The latter, as in Saul (1992 and 1994), von Holdt and Webster (1992), Adler and Webster (1995) and Cronin (1994) argued that the emphasis on elites leads scholars to misunderstand the role of popular movements and struggle in the origin, development, and outcome of actual transitions.

Adler and Webster (1995) strongly contend that Pzeworski (1991)'s argument that the 'Radical' within the 'Moderates' block are marginalised in the process of policy making during negotiations about reforms contains serious shortcomings, especially when tested against South Africa's empirical evidence. They argue that the role played by labour in shaping and contesting the transition shows that far from being marginalised, this movement has instead remained on the forefront of the South African transition. The involvement of labour movement, they argue, could be explained with reference to the concept of 'social movement unionism' which has defied categorisation as reformist or revolutionary (Adler and Webster, 1995:17-18).

According to the authors, social movement unionism exists when the formal organisational

features characteristic of unions are fused with the mobilisation capacity and looser structure of social movements. Their analysis of how this notion of social movement unionism manifest itself in South Africa holds that 'the twin grievances of capitalist exploitation and apartheid compelled the labour movement to seek both economic and political solutions to workers' problems (Adler and Webster, 1995:17).

Transcending Pzeworski's conception of elite-pacted democracy which insulate the government from the people by making politics the permanent business of a small number of specialised personnel, Adler and Webster (1995) focus their analyses on the emergence of what they call 'radical reform strategy' within the labour movement. Through this strategy, they contend that the labour movement in South Africa, particularly COSATU, has been able to harness its interests by involving itself within broader socio-economic issues beyond those of the factory floor². The main achievements of labour's influence on the transition are indicated by Adler and Webster in unions' contributions to changes in the Labour Relations Act (LRA) which has four key features signalling the labour movement's victory in the policy formulation process against the interests of a 'hostile' business sector in South Africa.

They are: firstly, for the first time in South African labour history all workers were brought under the ambit of one industrial system. This include, apart from the public service workers, the most marginalised, including farm labourers and domestic workers. Secondly, the new LRA promoted collective bargaining by providing for organisational rights for unions in the workplace. This also entrenched the right to strike with a clear right to picket. Thirdly, the Act encouraged parties to resolve disputes through conciliation and arbitration through the a constitution's established Commission for Conciliation, Mediation and Arbitration (CCMA). Fourthly, which Webster and Adler (1997) conceptualise as the most innovation, was the provision for joint decision making and consultation at shop floor level between management and workers through the creation of Workplace Forums (Adler and Webster, 1995 and Webster and Adler, 1997)

Other contributions made by labour in influencing the transition in South Africa are the former's involvement in the alliance with the ANC; in the formation of the RDP which became both the election manifesto of the ANC during the elections campaign and subsequently became official government after the elections; and lastly, labour's participation in a macroeconomic forum in the form of the National Economic Forum which emerged in the aftermath of the anti-VAT campaign (Adler and Glen, 1995:94). Most importantly, the NEF was transformed into an innovative and

statutory body in 1994 when it was succeeded by the establishment of NEDLAC.

While these contributions by labour in the process of policy making are more welcome, what is striking, however, is the extent to which labour has managed and indeed continued to add its efforts to the process of democratic consolidation. In a mood that resembles structuralism, Habib (1996) argues that an emphasis on either individual decision-makers and the formal negotiations process or the social movements and their struggles ignores other developments that crucially influenced the evolution of the transition, and its substantive character. He argues that in this way, 'the transition is treated as an autonomous process — divorced from developments outside the negotiating forums and the organisational structures of individual decision makers and social movements (Habib, 1995:61).

Indeed, Adler and Webster (1995) do highlight this point in their criticism of Przeworski (1991)'s conception of transition. They argue that Przeworski (1991)'s position has moved from understanding [labour] struggle as a constitutive part of political life to a viewing of it as potentially dangerous to an orderly transition which is in fact worked out by elites. In their own words:

'Our critique of Przeworski...is therefore not only substantive, but is also methodological. He shifts from an actor-based conception of labor movements capable of strategic manoeuvre, which characterised his work on unions in advanced capitalist countries, to a functionalist approach to labor movements in third world countries transitions to democracy, where labor's struggle become an impediment to transition that has to be reined by the movement's top leaders' (1995:11)

In so far as labour's role in the process of policy formulation is concerned, Adler and Webster's criticism of Przeworski's functionalist explanation is very much convincing hence in South Africa the labour movement has been an active actor, rather than a passive actor. Their critique is therefore also directed to what functionalism has been criticised elsewhere: that it does not adequately explain the process of social change by neglecting social conflict and the independent 'agency' of social actors. However, there are quite a number of questions that this critique raises concerning the South African policy making process.

Firstly, an emphasis on the 'agency' of social actors, in this case of the labour movement and other organs of civil society like Civic Associations and NGOs³, should be linked to interests

being pursued by these actors in competition with other actors such as business and other international financial institutions to influence government policy. Indeed, one thing that complicates South Africa's transition is the fact that unlike in other Eastern Europe and Latin American countries, this country experiences what may be called 'Double Transition'⁴, a transition which owes much of its explanation to Mandami (1996:24-25)'s argument that the process of democratisation should first and foremost entail the deracialisation of civil power if the legacy of the bifurcated state is to be transcended.

It is precisely this process of deracialisation that seems to have contributed to the ANC's economic policy shifts. Habib (1996)'s argument is that even though the aspect of 'agency' is being emphasised in praise of the labour movement's influential role in shaping the transition, it is logically bound to fail to explain the sudden rigorous shifts in terms of the ANC's economic policy because it has undermined the need to understand that while structures condition actors' behaviour and choices, they themselves can be transformed under certain conditions. This is because structures generate contradictions and social tensions, which under certain historical circumstances establishes a dynamic that enables human agencies to alter them, opening up new possibilities and limits for change (Habib, 1996:61).

What this means is that the decision by the South African labour movement to adopt the identity of 'political unionism' was a response to the certain existing economic structure during the years of apartheid. Analytically, that in itself represented an acceptance by the labour movement that race has been a subordinated variable to capital accumulation in South Africa. Though at the risk of over-simplification, it appears that the 'collapse' of the apartheid system did to a greater extent affected the above logic of analysis. This is exactly what Hood (1994:10) alludes to when arguing that when 'the social structure changes, policy habitats alter. Indeed, the direct proportionality between the two has been observed in South Africa when the labour movement began to shift its policy focus from that of 'radical transformation' of the entire society to that of seeking accommodative measures within the prisms of capital accumulation.

The economic structural changes that besieged South Africa in the past decade through the so-called 'African advancement', coupled with the process of 'class formation' which came to constitute the central feature of the ANC government after 1994 serves as one evidence of how the changing social structure of accumulation affected the process of policy making. Introspectively, this has been ramified through the seemingly technical policy renaissance which

holds that since its formation, 'the ANC was founded to unify tribal conflict and provide a forum for black intellectuals' (Matisonn, 1998).

From an economic policy point of view, this implies that the ANC never had any problem with unequal redistribution of resources as long as the black middle class forms part of the broad accumulating class. Lodge (1983:174) reiterates this point when noting that 'in 1955, despite its increasing sensitivity to the preoccupation of the least privileges, and despite the increasing strength of its links with worker organisations, the ANC was not a movement strongly oriented towards the working class⁵.

The paradoxical feature of the ANC was thus greatly felt after the organisation took power in 1994. This was also echoed by some of the thesis' respondents during the process interviews. In a nutshell, an account of whether the ANC has shifted because of the changed 'habitat' in contrast to the one which existed in the past may be divided into two groups.

The first group constitutes those who explain the current economic policy in terms of what may be called 'the continuity thesis'. Those within this 'thesis' argue that the ANC is still operating within its historical policies and allege that those who portray the organisation as having 'sold-out' to the market forces are confusing a change in strategy with a change in principle. Individuals falling within this 'continuity thesis' include Allan Hirsh, Stephen Gelb, Trevor Manuel, Alec Erwin, Thabo Mbeki, Pallo Jordan and to a lesser extent President Mandela himself.

The second group is constituting of those who interpret the current government policy through the lens of what may be called 'the breakaway thesis'⁶. The argument in this group is that the ANC has 'betrayed' the masses through its economic policies which vehemently seems to pursue supply-side approaches in contrast to the demand-led policies which have been inspirational to the organisation in the past. Included within this approach are individuals from COSATU, the SACP and some media commentators such as Pilger (1998) who was brave enough to conclude that the ANC has began 'short walk to orthodoxy' through its GEAR strategy.

An introspective analytical reconciliation of the above two contradistincting accounts lies within an adequate approach beyond the romanticisation of the South African political transition. So far, the debate about the extent to which a number of the emerging 'black' middle class impinges

negatively or positively to the South African transition has been taken forward by some individuals within the ANC itself. This debate hinges around whether this class could be categorised either as a progressive or as a retrogressive one, and about the extent to which it either serves as a barrier for 'radical' policy formulation or as an enabling class through which the ANC, at least in the long term, could be able to fulfil some of its 'traditional' aspiration.

In the past two years the debate has been carried out in the media, mainly in the Mail and Guardian newspaper, between Pallo Jordan, presently the Minister of Environment and Tourism and critics from the left such as Jeremy Cronin of the SACP and Ben Turok, an ANC MP who also chairs the Parliamentary Committee on Finance. In the series of commentary published in the newspaper, Pallo Jordan stood in defense of the emerging black middle class while Jeremy Cronin and Ben Turok contend that the emergence of the black bourgeoisie class in South Africa will lead this country into the same situation experienced by other post-independent African states whereby processes of self-enrichment of the leadership and capital accumulation by the emergent black middle class disadvantaged the majority⁷.

In November 1994 there were eight black-led companies with a market capitalisation of R3,5 billion listed on the Johannesburg Stock Exchange (Business Day, 20 December 1996). According to the South Africa Survey (1995/96:158), the numbers has increased to 11 such companies with a market capitalisation of R4,6 billion by 1995. By the end of 1996, there were already 17 black-led companies with a market capitalisation of R26,5 billion listed on the stock exchange. This figures clearly shows that the ANC has to take into account the interests of the emerging new class when economic policy matters are being dealt with. The question which remained, however, was how to link this black economic empowerment opportunities with the rest of the poor people in South Africa.

In one of his commentaries after an announcement of how blacks are becoming major shareholders, Turok (1997) argued that 'the recent report that black corporations now control 8,6 of values at the Johannesburg Stock Exchange comes as a clear signal of the increasing pace of black advancement into the highest echelons of South African society. Moreover, he strongly warned that 'black power should not ape white privilege' by reminding us that 'the ANC argued for decades that South African society is essentially colonial but with a distinctive feature in that the colonial ruling class is located within the country and not in some imperial country elsewhere' (Turok, 1997).

The concept that was by then used to describe this situation was that of 'internal colonialism' or 'colonialism of a special type' as defined by the ANC. He then concludes that what the emerging black bourgeoisie in South Africa will do, is to develop an envy of self-enrichment which means nothing else but an inheritance of the colonial class's behaviour of enjoying exceptional wealth and status which enabled them to even extract additional wealth and power beyond what an ordinary capitalist system would allow.

Turok's concerns evolve around his sceptical conception of what is presently referred to as 'black empowerment'. For instance, after President Mandela announced that he will root out of the government those who enrich themselves within the public service and his attack on what became known as the 'culture of entitlement', Turok (1998) responded by saying:

'I have been contemplating asking whether black empowerment can lead to crony capitalism of the kind reported in East Asia...some argue that black economic empowerment is the route to achieve the objectives of both redistribution and transformation...But does redistribution refer to individuals or to classes of people...we have not reached the stage of crony capitalism [but] it would seem that the government is meeting its obligations to the poor by reducing the fiscus while black empowerment is increasing the take at the top'

Sharing similar sentiments have been Jeremy Cronin's criticism of what he interchangeably calls 'neo-colonialism and mint imperials'. Drawing from the experience of most African states, Cronin (1998) argues that:

'Two decades of harsh structural adjustment programmes have rolled back post-independence social and democratic gains in many African countries. These programmes have enforced the brutal slashing of social and development budgets. In the face of all this, an emerged African bourgeoisie has typically played a supine, neo-colonial role'

He goes further to indicate that 'as a result, the means and the policy options available to many 'sovereign' African states drastically curtailed...[That], with political power hollowed out, politics (including multi-party politics where it exists) in much of Africa is less about national development agendas, but often reduced to struggles between ethnic elites, warlords competing to control enclave economies with the backing of this or that external force' (Cronin, 1997)

Both Turok and Cronin's pessimism about the positive contribution that the emerging black bourgeoisie could make in both the policy process and the broad transformation of the South African society does not necessarily denote anti-capital accumulation by this class. However, their feelings of insecurity evolves around the extent to which the interests of this class might serve as an inevitable constraint for the ANC to adopt redistribution policies that directly address the legacy of the past.

Conversely, Pallo Jordan (1998a, 1998b) in his engagement with both Cronin and Turok argues that the emerging black bourgeoisie should serve as new role models for to nurse the tender seedling of democracy, non-racism, non-sexism and civil liberties that are still being surrounded by an extremely hostile environment. For him, building a united nation requires that we bridge the gulf between rich and poor, which in the South African context translates into white and black. He thus contends that 'the profile of the emergent black bourgeoisie excites comment...[and that] though small, South Africa's rising elite could set the tone for the rest of society ...by posing an alternative vision of the future' (Jordan, 1998). Interesting enough is how Jordan conceives the emerging black bourgeoisie fitting into the broad policies of the ANC. He argues:

'It has been repeated often that the Freedom Charter is not a socialist programme. What has been left largely unsaid is that neither is it a conventional bourgeois democratic programme. It is a programme devised to capture the contradictory unity between a black petty bourgeoisie and a proletariat'

(Jordan, 1998)

Indeed, it was precisely sentiments such as the above quotation which set the scene for the rigorous 'embourgeoisement' of the South African society in the period after 1994. The rationale for this was clearly captured by Cyril Ramaphosa when speaking at a conference hosted by the Institute of Directors in Southern Africa in September 1996 when he emphasised that 'by pooling resources blacks would be able to accumulate the capital which would 'overcome economic apartheid'. He then defined 'black economic empowerment as: a very deliberate means to achieve participation of disadvantaged South Africans in the mainstream economy and that this should include the substantial broadening of equity ownership, the promotion of entrepreneurship and the development of skills (South African Survey, 1996/97:275).

This process was also being facilitated through government entrenching the

necessity of accommodating the interests of the 'black bourgeoisie' within the government's broad macroeconomic framework. For instance, at the end of 1995 the government established the Centre for Small Business Promotion (CSBP), the National Small Business Council, the Ntsika Enterprise Promotion Agency and Khula Enterprise Finance as part of the Department of Trade and Industry to support small, medium and micro-enterprises (SMMEs). The overriding concept behind all these policies has been that of 'social partnership' developed by the ANC after shifting from the policy of nationalisation. In an interview with Finance Week editors before attending a conference titled 'Getting SA Working: the ANC and Business Plan for the Future' in Sandton, Johannesburg, Mandela outlined the idea of social partnership in breadth and length as follows:

'The ANC, as you know, is a broad-based liberation movement which has fought for the interests of the oppressed and the marginalised people of South Africa. Be as it may, the ANC has a broader commitment to the whole of South Africa and all its people. In this regard, the ANC is committed to building working relationships with business, labour, the civic movement, NGOs and other organs of civil society...when we therefore talk of partnership, we are really talking about a common commitment to work together for a better life for all our people' (Finance Week, 1994 March 31-April 6)

What all of the above implies for the economic policy making process is the fact that the interests of this 'new class' did strongly emerge as one of the powerful and influential forces that the ANC has to reckon with. This was quite evident during the interviews when Cronin, despite the fact that he appears not to be happy with the forms of policies being adopted by the ANC, was honest to qualify his opinion:

*'We must not romanticise the ANC of the past and demonise the ANC of the present. There will always be some impatience, and this has been there before, ...by some of the ANC top leadership...saying that this is the right policy and so forth. This is part of the organisational structural problem and the ANC has been able to live up with that'*⁸

Yet, it appears that the changed 'habitat' in terms of the ANC's traditional support base has also been encouraged by the South African labour movement's involvement in activities of 'union investment' projects. In the same way with the view which holds that 'black empowerment' has the potentiality for 'indirectly' redistributing resources amongst the historically marginalised groups, 'union investment' are also being viewed as having the capacity to influence policies geared towards economic development in South Africa.

According to Ravi Naidoo (1997), trade union investment is directly responding to the economic structural provisions of GEAR, namely, to create conditions that local and international private sector investors would feel comfortable with. He argues that in response to globalisation's features of the diminishing power of governments and the introduction of flexible labour markets, unions should, in response to this onslaught, go beyond their traditional way of organising workers across the line and the strengthening their bargaining position since these responses are not enough (1997:80). In his own words:

'The labour movement will need to move away from relying only on its traditional arsenal of 'negative' sanctions (such as withholding labour or a refusal to work overtime) towards positive action plans. By influencing the investment agenda, unions could actively change the nature of the economy and the workplace' (Naidoo, 1997:80).

Similarly, Phillip Dexter, an ANC MP echoes the same conception, though from a different angle⁹. In his attempt to provide some positive insight about the relevance of these trade union investment projects in the context of the South African transition, he identifies three areas of contributions from that could be gained in the process. Firstly, that such investments could enable unions to become strong and financially viable organisations. Secondly, that this could also increase their influence in the economy and lastly, that investment vehicles could also create the opportunity for unions to contribute towards the financial viability and independence of the democratic movement, especially the ANC (1997:71). More tellingly, Dexter argues jealously and in a tone that clearly confirms the concept of 'embourgeoisement of the whole society' as suggested above:

'...it is only logical that unions invest their surplus cash to build up resources and that they should seek to control the investment of workers' pension and provident funds. After all, why should capitalists be entrusted with this responsibility?...Building socialism is also about understanding capitalism and transforming it. This means working in the system as well as trying to break it...By harnessing their energies in this direction, the unions and other Alliance partners will maximise their strength in the market' (Dexter, 1997:71-73)

Embodied with the above assumptions is the observation that apart from its traditional interests of 'fighting' the capitalists, the South African labour movement discovered other new interests: those of becoming 'capitalists' in a manner that is closely related to the concept of 'black

economic bourgeoisie class' as discussed above. Ironically, it may be argued that by so doing, the trade union movement accepted in principle that workers' struggle of shielding job losses are not sustainable as processes of retrenchment are increasingly becoming the central feature of globalisation in general, and in particular, as a result of the current free-market policies being adopted by the ANC. Both ideas of 'black economic empowerment', 'black economic bourgeoisie' and 'trade union investments' are in essence implying that the state should refrain from policies that calls for formal job creation and instead focuses on creating a conducive climate in which the historically marginalised groups will have to explore new ways of generating income and resources independently of the capitalist forces in South Africa. It could thus be argued that the ANC's economic policy shifts was in response of this view.

COSATU's compromise on withdrawing its opposition of the ANC government's process of privatisation, in return for a rather affectionate approach as agreed in 1996 through the National Framework of Agreement (NFA)¹⁰ can be viewed as something that symbolises the shift of interests in its efforts to influence an adoption of economic policies that still perceive the state as the 'guardian' against job losses. While this withdrawal can also be interpreted positively as a reflection that the federation is transforming its role from that of being in the stage of permanent opposition with the state's policy to that of becoming part of the solution to the country's economic problems, the 'social agenda' such as the idea of 'social plan' which is, amongst others, aimed at aimed providing counselling and advises on how retrenched workers should think of ways to spend their retrenchment packages meant that it has accepted that the negative implications of the ANC's export-led growth and supply-side policies are difficult to challenge.

Webster and Adler (1998:18) have observed that 'the ability of COSATU as well as the SACP to avoid a direct confrontation over GEAR has largely disappeared. In a provocative article to the Mail and Guardian newspaper (May 22-28, 1998) titled 'The Left is Dead: Can the Corpse be Revived', Khuseeni Dlamini of De Beers even goes to the extent of arguing that 'the crisis of the left reflects the lack of an innovative central organising vision, political strategy and direction that is flexible and pragmatic in its response to the challenges of globalisation and fragmentation currently at play across the world'. He further advises that 'the left in South Africa and the world needs to re-invent itself simply because its project was a product of a particular historical moment that has come to an end'. Indeed the challenges that confronted the South African labour movement in coping with the transition and their subsequent implications of narrowing its space for questioning some of the GEAR policy prescriptions has been eloquently summarised by

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