

From Apartheid to Neoliberalism

- **A study of the Economic Development in Post-Apartheid South Africa**

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Abstract

This thesis describes the social and economic development in Post-Apartheid South Africa and the role of neoliberal advocates in the shaping of the country's broader developmental path after 1994. South Africa's ruling party, the African National Congress (ANC), inherited a two folded legacy. On the one hand it took over the most developed economy on the African continent. On the other, a legacy of massive inequality and racial segregation. This thesis describes why a neoliberal trajectory was triumphant in the crossroad where the ANC had the choice between following a progressive developmental path or a neoliberal one, and its impact on South Africa's social and economic system.

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List of Abbreviations and Acronyms

AA	Affirmative action
AAC	Anglo American Company
ANC	African National Congress
ANCYL	African National Congress Youth League
BEE	Black Economic Empowerment
CDE	Centre for Development and Enterprise
COSATU	Congress of South African Trade Unions
CPI	Communist Party of India
CPSA	Communist Party of South Africa
DEP	Department on Economic Policy
EFF	Economic Freedom Fighters
FDI	Foreign Direct Investment
FMF	Free Market Foundation
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution
GEIS	General Export Incentive Scheme
GNU	Government of National Unity
IDASA	Institute for Democracy in South Africa
IFP	Inkatha Freedom Party
IMF	International Monetary Fund
ISI	Import Substitution Industrialization

ISP	Industrial Strategy Project
MK	Umkhonto we Sizwe - Spear of the Nation
MEC	Mineral Energy Complex
MERG	Macro Economic Research Group
NEC	National Executive Committee
NEDLAC	National Economic Development and Labour Council
NEM	Restructuring of the South African Economy: A Normative Model Approach
NGO	Non-Governmental Organization
NP	National Party
NPAID	Norwegian Peoples Aid
RDP	Reconstruction and Development Programme
SACOB	South African Chamber of Business
SACP	South African Communist Party
SAP	Structural Adjustment Programmes
SAF	South African Foundation
SANNC	South African Native National Congress
TEC	Transitional Executive Council
UDF	United Democratic Front
UF	Urban Foundation
VAT	Value Added Tax
WTO	World Trade Organization
WW2	World War Two

Chapter 1 – Introduction

1.1 - Background and motivation

The aim of this thesis is to describe and analyse how South Africa, after 1994, was shaped into a Third Way social democracy by the forces of globalization. In the South African case, the most important actors, promoting a neoliberal agenda, have been international finance institutions and the South African corporate sector.

The era between 1948 and 1994, in South Africa, was called Apartheid, meaning segregation in Afrikaans. The ANC, when it took power in 1994, obliged itself to undo the errors of the Apartheid system and lift the millions of South Africans, mainly black, that were marginalized and living in poverty. In 2014, twenty years after the end of racial segregation, the inequality in South Africa had risen, and the country was the most unequal country in the world.

How did this happen? How was it that the ANC, a radical party with social democratic objectives on the political left, which was in an alliance with the South African Communist Party (SACP) and Congress of South African Trade Unions (COSATU), the biggest trade union in Sub-Saharan Africa, was unable to build an activist coherent state apparatus to reduce, and undo, the errors of the past, but embraced a neoliberal and anti-statist approach?

In this thesis, I choose to use the theoretical framework provided by Sandbrook, Edelman, Heller and Teichman (2007) on social democratic regimes in the global periphery to study the South African case. I choose to look at the potential obstacles of creating a social democratic regime within a neoliberal order, and focus on how neoliberal structures have shaped the South African trajectory after Apartheid.

In 1994, the newly elected ANC government was in a very challenging position. The legacy of racial discrimination had left the overwhelming majority marginalized, without proper education, housing or an income large enough to support their households. During the 1994 election campaign, the ANC, especially through the Reconstruction and Development Programme (RDP), promised to provide a welfare state to the historically marginalized. The ANC also promised to undo the injustice of the past, and distribute the wealth of South Africa in a way that benefitted the previously disadvantaged people.

Writers claimed that every economic outcome was possible (Bond 2005:15). Economic scenario policies in South Africa were reflected by two very different strategies. “The Making democracy work: a framework for macroeconomic policy in South Africa”, published by Macro Economic Research Group (MERG), emphasised an active state, and was in favour of a Keynesian macroeconomic framework and dealing with the social problems directly. On the other side was “The restructuring of the South African Economy: A Normative Model Approach” (NEM), a scenario created by the National Party (NP), which emphasised the creation of a business friendly environment, and was a neoliberal blueprint that recommended minimal state intervention, privatization, wage restraint, liberalization, deregulation, liberalization, tight monetary policies and low inflation. The MERG report was forgotten, and the ideas of NEM became a model for the Post-Apartheid government’s economic development.

In 1994, South Africa did find itself at a crossroads. It could either engage the global economy on its own terms, and then distribute the wealth generated by (liberal) economic growth to meet social democratic objectives (reduce income inequalities, poverty, provide education, health, housing, etc.). Alternatively, it could impose a more protectionist regime, allowing greater political control over economic decisions to bring about the same social democratic objectives. In short, the choice was between a strategy which relied on redistribution of free market gains (or, possibly, short term costs for long-term gains) versus a strategy of democratic management of the economy (alternatively, short term gains in exchange for long term costs).

My motivation for writing this thesis comes from a profound interest in the South African people and their history, which grew stronger while I was studying at the University of Stellenbosch, where I also conducted the research for this thesis.

The role of international finance institutions and domestic capital

The ANC was under enormous pressure from interest groups that wanted to affect the trajectory of South Africa’s Post-Apartheid economy. The most active actors were international finance institutions¹ like the International Monetary Fund (IMF), the World Trade Organization (WTO) and the World Bank, and the very strong corporate sector in South

¹ GATT/WTO is not really a financial institution, it is a trade institution. I recognize this, but include the three sister institutions together, as “international financial institutions”.

Africa. The corporate sector, often represented by the Mineral Energy Complex (MEC) and Anglo American Company (AAC), published a very high number of scenarios like the “Prospects for a successful Transition” document (Taylor & Williams 2000:28). The ANC was under an ideological bombardment, and the corporate sector promoted its message, lavishly and ubiquitously, in books, multimedia presentations and newspapers. All financed by donors and multilateral agencies (Marais 2011:101). Their main goal was to make the ANC distance themselves from their previous socialist and redistributive policies. The international finance institutions became very active when it became known that the Apartheid was going towards an end, after Frederik Willem de Klerk’s² speech in the parliament in February 1990, when he proclaimed the release of Nelson Mandela and unbanning of the ANC. They all, to various degrees, recommended a neoliberal path for the country’s economy.

The South African corporate sector and the international finance institutions were not the only ones trying to influence the ANC’s policy making. COSATU’s alternatives varied from the scenarios made by neoliberal promoters. COSATU was very involved in the most realistic and comprehensive alternative to the neoliberal scenarios: the MERG report. This report was influenced by Keynesian ideas and emphasized a more statist approach in the building of South Africa’s Post-Apartheid economic policies. A brief on why a different approach never became an option for the ANC is necessary.

1.2 - My argument

My argument is that South Africa has developed some sort of a social democratic system in the period after 1994, but that the forces of globalization have shaped it into a Third Way regime which resemble the Chilean case, and not a more traditional version as seen in Costa Rica and Mauritius, or a Radical version like Kerala, in India.

1.3 - Problem statement

The intention of this research project is to answer the following question:

Why did neoliberal ideas prevail in the development of the Post-Apartheid social and economic system?

² The last President during NP rule.

1.4 - Research aims

The research aim of this thesis is to analyse how and to what extent the Post-Apartheid South African economy fits within a neoliberal paradigm, and why, and by whom, the ANC has decided to follow a path of neoliberal ideas, and how these decisions have created a Third Way social democratic system in the country.

The focus of my thesis is primarily on the development of South Africa's economic policies after 1994, and on how the South African business sector and international finance institutions like the World Bank, WTO and the IMF, have influenced the ANC's policies, and in particular the Growth, Employment and Redistribution (GEAR) programme, the pillar in the South African economy after 1996.

My conclusion is that the ANC's adoption of neoliberal economic policies was, among others, caused by the party's lack of its own economic alternatives when it was unbanned in 1990, and the fact that the transition was taking place in a "New World Order", where neoliberal capitalism was hegemonic. This made the ANC very open to accept the scenarios provided by the international finance institutions and the South African corporate sector. As an effect, South Africa has developed into a Third Way social democracy. My conclusion is that the South African case could have been a Radical social democracy, or it could have been a very liberal, non-social democratic, outcome, but the unique combination of history and events created a Third Way social democracy.

1.5 - Research design and methodology

A qualitative approach to this thesis was undertaken. The historical approach was chosen as a means in the process of describing, analysing and interpreting the past by using sources that relate to the development of South Africa's Post-Apartheid economic development.

Research for this thesis was done through the study of secondary sources via the analysis of academic books and journals, some internet articles, publications and ANC documents. I base my main literature on the works of the most central commentators on the development of South Africa after 1994, within the field of political science and economy. The most essential commentators, in my opinion, are Hein Marais, Anthony Butler, Patrick Bond, Sampie Terreblanche and Adam Habib. I will review some of their publications more closely in the literary review section.

Another important part of this thesis is to study the scenarios for South Africa after Apartheid, made by the international finance institutions and the South African corporate sector, and the deals and treaties made between these actors and the ANC. To avoid being biased I choose to look at a range of different documents and treaties, and actively try not to “cherry-pick” what might support my personal belief.

Different official ANC documents and discussion documents have also been essential in this thesis. This thesis is an empirical study, and will be dealt with in a normative, descriptive and explanatory manner.

The time dimension within this thesis will focus on the transition period around 1994, up until the proclamation of the GEAR, and the development to the early 2000s.

1.6 - Chapter outline

Chapter 2 – Theory

As mentioned previously, my theoretical framework is the book by Sandbrook et al. (2007), *Social Democracy in the global periphery*. In the theory chapter, I will review several obstacles to the creation of a social democratic system in the global periphery, before I focus on the main variable of study, namely: how neoliberal policies and actors may constrain the building of social democratic systems.

There I will emphasise how neoliberal advocates can challenge the building of a social democratic system. With neoliberal actors, for the South African case, I mean international finance institutions and the South African corporate sector. In this chapter I will also show that, despite the challenge made by neoliberalism, there still exist possibilities for countries in the global periphery to create a social democratic system, but that neoliberalism and neoliberal actors will most likely turn the system into a Third Way social democracy, which is the case in South Africa after 1994.

Chapter 3 – Social democracy in South Africa

Several documents, like the RDP, have showed that the ANC had a social democratic vision for South Africa in the Post-Apartheid era. Chapter 3 will try to classify the strength and type of social democracy, using Sandbrook et al. (2007), which has occurred in South Africa. I will do this by focusing on the performance of an increased social infrastructure, reducing poverty, building houses, increasing the access to clean water, electricity, education, and basic medical services, among others.

My conclusion is that Post-Apartheid South Africa is a less poor, more unequal Third Way social democracy and has several similarities with the Chilean case in Sandbrook et al. (2007). I will show this in a more detailed manner in Chapter 3.

Chapter 4 - The legacy from Apartheid and ANCs economic policies after 1994

The purpose of this chapter is to describe the decisions facing the ANC government in 1994, and briefly go through the South African history of racial segregation and Apartheid, which is the aspect of South Africa's history that has made the biggest impact on its development, past and present.

In particular, this chapter will focus on the overall condition (growth, investments, industrial relations, state deficits, unemployment) of the South African economy in the last decades of Apartheid. The purpose is to show that the South African case, in the early 1990s, was two folded. It was unique in an African context, with a relatively modern economic system, but it had been moving in a downward spiral for two decades, and was on the brink of destruction.

To get a good overview on the nature of the decision facing the ANC in the early 1990s this chapter will also look at the existing macroeconomic framework under NP rule, which was the Normative Economic Model (NEM), published in March 1993. The last part of this chapter will review the ANC's choice of policy after it was elected in 1994, more specifically the RDP and GEAR. Some of the points that will be highlighted are the ideological shift between RDP and GEAR documents, and the continuity between the NPs NEM and the ANCs GEAR policy.

Chapter 5 - Advocates for the liberalization path

Chapter 5 will review the main advocates, the corporate sector and the international finance institutions, for South Africa to follow an internationalization/liberalization path. This is to identify the nature of their arguments, documents produced, which incentives were provided, and how they were able to convince the ANC to follow a neoliberal economic policy.

When saying international finance institutions, I mean the Bretton-Woods institutions: IMF, the World Bank and General Agreement on Tariffs and Trade (GATT), later called the WTO. I will look into different papers and reports these organizations made with recommendations on the development of South Africa's economic future. I will also focus on deals and treaties, and the conditions made between these institutions, the ANC, the interim government called the Transitional Executive Council (TEC), where ANC was taking part, and the ANC

government after 1994. The most influential treaty was the deal made between the TEC and the IMF in 1993.

Chapter 5 will also focus on the role of the corporate sector. An important point is to highlight the strength of this sector in South Africa, and their ability to exaggerate their fragility after a decade of recession, successfully convince the ANC that they spoke in the interest of all South Africans, and influence the ANC's economic policy and decision making in the transition period. Some of these are the South African Chamber of Business (SACOB), Nedcor Corporation, AAC and MEC. In particular, I will focus on the last two, because they were the most influential. An important point to emphasize is that even though the corporate sector was not coherent and in unison in all their scenarios, they all embraced a free market economy, and the need to roll back the state, privatize, and they all desired a neoliberal economic approach. This chapter will also review different Post-Apartheid economic scenarios created by the corporate sector.

Chapter 5 will also show how South Africa was shaped into a Third Way social democracy as a result of following the recommendations of these two neoliberal advocates.

Chapter 6 - Advocates for the democratic management path and the development of ANC and COSATU's economic policies

Chapter 6 will describe the road not taken, and ANC's attempt to try to make an economic policy from the late 1980s, and after they became the governing party in 1994. This chapter will also incorporate a small section about the ANC's ideological history, to show that the party is not purely a leftist/socialist party, but has strong Africanist traditions, which made it more open to a neoliberal policy. This, together with a shortage of their own macroeconomic alternatives, made the ANC very open to accepting a neoliberal economic policy.

I will focus on the most essential documents produced by the ANC in the late 1980s and until the launch of RDP in 1994. These are: the Freedom Charter, the Discussion Document from the Harare Workshop, and Ready to Govern.

This chapter will also look at the ideological opponent of the international finance institutions and the South African corporate sector: COSATU, and their more progressive alternatives. COSATU was the most active actor in the process of making coherent economic alternatives to the ones created by the South African corporate sector and the international finance institutions. This chapter will contain their most central economic policies, and how they

attempted to influence the ANC's economic policies. There will be a particular focus on the MERG report, that by many has been described as the most coherent progressive opinion available (Marais 2011:107).

I conclude that COSATU was able to influence the ANC's policymaking only to some degree, and it suffered from brain drain to the ANC and the state administration after the first democratic election. The most realistic and coherent alternative, the MERG report, was too little, too late; it became an object of heavy criticism from the media and the corporate sector, and was basically forgotten.

Chapter 7 - Analysis

The ending of Apartheid was a negotiated truce. There was no revolution where one regime wiped the old one away by using force. In the late 1980s, the situation in South Africa had reached a standstill. None of the sides was capable of defeating the other. Major actors like the NP, the business sector, ANC and its allies all understood that it needed to approach its traditional enemies to create an agreement that each side could live with.

This section combines information given in previous chapters. Further, this chapter describes how the business sector successfully convinced the ANC that the only alternative for a new democratic South Africa was with a neoliberal economic system. One important aspect is how the ANC did justify its choices. The way they justified the GEAR programme, South Africa's broader developmental path, was, in short terms, that it was to create a business friendly environment, which would trigger investment, growth, jobs, and in the end this would trickle down to the poorest part of the South African population.

The neoliberal path became successful in Post-Apartheid South Africa for several reasons. One is that the transition was taking place in an era described as the *End of History* (Fukuyama 1992), where the planned economy of the Soviet Union had failed and the Keynesian method was out of fashion. The ANC had little or no economic policies when it was unbanned in 1990, which made it very open to external influence from the international finance institutions, and the strong South African corporate sector. Despite this, the ANC showed with the RDP document, despite being vague and undetailed, that it had social democratic objectives. However, I argue that because of the reasons mentioned above and the constraints of neoliberalism, South Africa developed some sort of a Third Way social democratic system.

1.7 - Literary review

The history of South Africa since the arrival of the Europeans is well recorded, especially the era of, and the struggle against, Apartheid. The interest has been international. There also exists a significant amount of literature on the South African transition after 1994, focusing on social and economic aspect of the transition from Apartheid to a multiracial democracy. In this section I will review some of the most important and influential works on Post-Apartheid's development. This to make sure that I do not reinvent the wheel.

South Africa Pushed to the Limit: the Political Economy of Change (2011) - Hein Marais

This book was published after Jacob Zuma ascended to the presidency, and is a macroeconomic study of South Africa's development after 1994. The essence of his thesis builds on some of his earlier work, *Limits to Change* (2001). Marais explains the democratic transition in South Africa is merely a transformation by the ruling classes to establish a new growth path, after it failed to address the economic crisis in the economy from the 1970s.

My interpretation of Marais' book is that his main point is that economic and political elite gave the ANC a mandate to deliver a sustainable and steady new growth path after 1994. A part of this arrangement was the creation of a black capitalist class (Marais 2011:389). The ruling party hoped that this, the patriotic black capitalist class, would create a level of political and social stability, and with this create the pretext for a slow, but steady, project of empowerment and transformation of South African society. This was to be realized by policies such as Black Economic Empowerment (BEE) (Marais 2011:140). Unlike other commentators, Marais claimed that the "Battle of Polokwane" between Zuma and Mbeki did not lead to a clear change in South Africa's economic policy to the left, in favour for a more developmental state, but represented a continuation.

A history of Inequality in South Africa (1652-2002) (2002) and Lost in Transformation (2012) - Sampie Terreblanche

Sampie Terreblanche has been active in the academic debate about the nature of South Africa's transformation. *Lost in Transformation* (2012) builds on his previous book *A history of Inequality in South Africa (1652-2002) (2002)*. He claims that looking at the South African transformation in the early 1990 from the perspective of 2002 (when he wrote his previous book) versus 2012 (the date of his most recent book) was very different, because of the amount of information available, and in particular about the secret negotiations that took place between the South African corporate sector and the ANC in the early 1990s.

In *A History of Inequality* (2002), Sampie Terreblanche claimed that the transformation that took place was an incomplete transformation, and he asked what could be done to make it complete. In the first book he claims that the transformation in 1993/1994 was indeed complete, both political and economically. But the changes that took place were the wrong changes, and they created a new politico-economic system that is operating dysfunctionally. Terreblanche calls the politico-economic system between 1789 and 1994 a British-oriented system of colonial and racial capitalism. The Post-Apartheid politico-economic system, which he describes as “a neo-colonial satellite of the American-led neoliberal global empire” (Terreblanche 2012:2), systematically excludes the poorest part of the population from taking part in the economy.

One of the points in the first book is that the neoliberal economic system that developed in South Africa after 1994, is partially, or fully, a result of the corporate sector’s desperate need to result in accumulation crises. Terreblanche claim that the real decision about South Africa’s Post-Apartheid economic policy was taken in 1993 before the election, and was manifested in the “Statement of Economic Policies” (Terreblanche 2002:96) between the corporate sector and the NP on one hand, and the ANC on the other. With the statement the ANC imposed itself to follow “business friendly” macroeconomic policy.

What is particularly interesting about the latest book, is his focus on the corporate sectors role in the transformation, and especially the MEC from 1986 and onward (Terreblanche 2012: 3), and how they played a dominant role “(...) in outwitting the leadership core of the ANC to agree to the elite compromise of 1993” (Terreblanche 2012:3). This compromise came to being, partly, because the MEC and American pressure groups made very optimistic promises of how economically advantageous it would be for South Africa if it were to become integrated into the structure of global capitalism, and if the ANC should accept the ideologies of neoliberal globalism and market fundamentalism.

Elite Transition: From Apartheid to Neoliberalism in South Africa (2005) – Patrick Bond

Patrick Bond writes from what he, himself calls a “Radical analytic-theoretic framework” (Bond 2005:1). The aim of his book is to explain what he calls “(...) the transition from a popular-nationalist Anti-Apartheid project to official neoliberalism – by which is meant adherence to free market economic principles, bolstered by the narrowest practical definition of democracy (not the Radical participatory project many ANC cadre had expected) – over an extremely short period of time” (Bond 2005:1). Bond claims that almost every scenario was

possible with the end of Apartheid (Bond 2005:15). The result was a neoliberal system. Bond claims that the corporate sector in South Africa where extremely active and successful in convincing the elite within the ANC, of abandoning their radical policies in favour of a neoliberal and business friendly policy.

The central argument of the book is that South Africa has transformed from a racial Apartheid, to a class Apartheid. The neoliberal policies in post-Apartheid South Africa have been incapable of lifting the underprivileged black majority, and the big beneficiaries have been a small elite of black businessmen, many with close ties to the ruling party (Bond 2005:254). The main reason for this was that a small group of nationalists “hijacked” the popular movement during the early 1990, and consisted of a “neoliberal clique” (Bond 2005:254). And since the South African transition between 1990 and 1994 was very much a compromise between elite groups; the NP and the business sector on the one side and the ANC on the other, the fact that the state adopted a neoliberal policy should not be a surprise.

Bond (2005) also focus a lot on the RDP and GEAR programme which he claims had two incompatible goals, and the ANC created a myth where it was possible to combine neoliberalism and a developmental state.

South Africa’s Suspended Revolution (2013) - Adam Habib

In this book Adam Habib focus on a wide range of aspects connected to South Africa’s transition, ranging from social and economic reforms to the Post-Apartheid regime’s foreign policy, which is his primary field of study.

One essential part of the book is the part about the political economy in Post-Apartheid South Africa. Habib claims that the economic policy has been fundamentally neoliberal, and the most prominent expression for this is the GEAR (launched in 1996), which he called a “conservative macro-economic programme” (Habib 2013:6). He claims that GEAR reinforced the bifurcated structure from Apartheid. It was successful in de-radicalizing some elements of the upper classes, but its trickle-down approach was not capable of limiting the distance between rich and poor: “(...) although GEAR may have facilitated economic growth and allowed some to benefit enormously, it left millions unemployed” (Habib 2013:6).

Habib also highlights aspects closely linked to the ruling party. Habib describes how its policies like Affirmative Action (AA) and BEE have been inadequate to close the gap between rich and poor, but enriched a small politically connected black business elite. This

literary review has only touched the top of the iceberg, but at the same time looked at some of the most influential works on South Africa's development after 1994. What becomes clear is that there exist many different approaches for the study of the South African case. To know what to look for, a more theoretical approach is necessary.

Chapter 2 – Theory

2.1 - Introduction

The purpose of this study is to see whether the South African regime could be characterized as social democratic, and, by using Sandbrook et al.'s (2007) framework, to find the biggest obstacles towards building a social democracy in South Africa after 1994. I have concluded that the biggest obstacle has been neoliberalism, and neoliberal actors like the IMF, WTO and the World Bank, combined with the strong South African corporate sector. Because of neoliberalism and neoliberal actors, the South African case after 1994 has been shaped into a Third Way social democratic system.

To understand a socially-created concept like social democracy, and how it can develop, a theoretical approach is necessary. It is widely known that the social sciences aim toward generalizing (Moses & Knutsen 2007:139). That is why this paper is not going to use every theory that concerns the field of social democracies. In this thesis, I am going to use Sandbrook et al.'s (2007) theoretical framework from their book *Democracy in the Global Periphery: Origins, Challenges, Prospects*.

Social democracies had their golden age after the Second World War (WW2) in Western Europe. The Bretton Woods system facilitated a statist dominated way, among others, of organizing the economy, industry and the nations' welfare arrangements. It has often been claimed that creating social democracies, for example the typical Scandinavian type, is much harder today than before the age of hegemonic neoliberalism and the Washington Consensus. Sandbrook, Edelman, Heller and Teichman explain that it is possible and that social democracy is *the* way to go for developing countries in the global periphery:

“Hence, while it is always risky to generalize about regions so enormously diverse as found in the global periphery, two points are abundantly clear: (1) the urgent need for social-democratic politics in the periphery, and (2) the special difficulties impending its emergence. Equitable social protection is a guiding principle of social democracy, yet it is an attribute that for a variety of historical reasons has been woefully neglected in most peripheral countries” (Sandbrook et al. 2007:37-38).

After the end of Apartheid, the ANC took control of government with South Africa's first democratic election, a role it has kept for two decades, the last time during the parliamentary election in 2014. The ANC's ideological roots are heavily influenced by a strong leftist

tradition, and are self-proclaimed social democrats (Ellis 2012:113). Did the ANC and South Africa have the will and opportunity to create a social democratic system after 1994? To know what obstacles to look for, a theoretical approach is necessary.

2.2 - General introduction to Sandbrook et al. (2007)

Sandbrook et al. (2007), as previously noted, claim that social democracy is the way to go for countries in the global periphery. The four authors base their statements on their study on four cases in the global periphery; Chile, Costa Rica, Mauritius and the Indian state of Kerala. Despite the fact that these cases are different in so many ways in terms of geographical location and size, demographics, economic size and structure and culture, among others (Sandbrook et al. 2007:9), the authors selected the four cases “on the grounds of both their celebrated status as social democratic pioneers and the diversity of their approaches” (Sandbrook et al. 2007:9). Although there is a lot of diversity within these four cases, they resemble each other in their exemplary socioeconomic development (Sandbrook et al. 2007:9). Each has achieved an exceptional record in comparison to others in their region or country: Kerala in relation to other Indian states, Costa Rica in Central America, Chile in Latin America, and Mauritius in Africa.

2.3 - Definition of social democracy

Social democracy is a key concept in their line of argument, although the authors do not provide a uniform or clear definition of what it is, but rather some general characteristics. The authors have in their book identified three types of social democratic regimes in the global periphery, which they have called Radical, Classic and Third Way. They base their classification on three criteria; equity, democratic participation and the role of the state in guiding market forces. See table 1 for Sandbrook et al.'s (2007) four types of social democracy.

Table 1			
Type	Conception of equity	Conception of democracy	Role of state
Radical	-Redistribution of assets to reduce unjust Inequalities -Empowerment via decentralized participation -Universal entitlements to meet basic needs	-Organize workers and peasants in own associations -Decentralized participation -Representative system at centre	-Extensive: emphasize equity -Asset redistribution -Universal services, pensions, subsidies -Regulations of labour markets -Expansive rights
Classic	-Universal an comprehensive welfare state - Good jobs - Growth in wages -Limited subsidies on basic needs	-Representative system -Extensive consultation of all relevant groups in policy innovations	-Extensive: emphasizes equity and growth -Universal services and pensions -Regulations of labour markets - Targeted industrial strategies
Third Way	-Poverty reduction -Accessible education and training -Safety nets targeted to truly needy	-Electoral systems in which elites compete for power	-Moderate: emphasize market-based growth -Adequate training -Export promotion -Adequate public services

Table 1: Social democratic regimes in the periphery (Sandbrook et al. 2007:26).

For the sake of this master’s thesis, I will use Sandbrook et al. (2007)’s definition of social democracy: “(...) a baseline definition of social democracy is an activist state that can secure basic social rights, provide protection against market forces, and reduce inequality” (Sandbrook et al. 2007:68). The problem with this definition is that it is very general and vague. Even the most economic liberal states intervene, to some degree, to counter the most obvious, negative, aspects caused by the market. A more complementary definition might be beneficiary:

“An effective and social-democratic developmental state is, therefore, an outcome of long term historical processes, a certain configuration of class and ethnic forces, and conjunctural forces such as astute leadership and institutional design. This state has succeeded in promoting industrial and social policies whereas other, pursuing similar approaches, has failed” (Sandbrook et al. 2007:139).

2.3 - Three types of social democracy

I will now review the different types of social democratic types, and their main features.

2.3.1 - Radical social democracy

The Radical regime is exemplified by the Indian state of Kerala, since 1956 under the control of the Communist Party of India (CPI). During its political rule, the state adopted a conception of equity that requires a redistribution of assets and resources to reduce unjust inequalities. According to Sandbrook et al. (2007:26) such movements typically build support among workers, peasants, and small farmers, and sectors of the urban middle classes over many decades of political activity. When the CPI came to power, they sought to engineer a redistribution of wealth and income by means of land reform, improving workers' income and rights, extensions of health, education, pensions, and employment benefit, and public ownership. Another facet of equity is the empowerment of ordinary people that flows from radical reform of the democratic system.

2.3.2 - Classic social democracy

The Classic social democratic regime is exemplified by Costa Rica (1950-1980) and since the 1970s, Mauritius. These two cases equate equity with a universal and comprehensive welfare state and a proactive state that creates good jobs with good wages. This social democratic regime rests on a consensual political process in which, despite electoral competition, the major parties agree on the principal economic, social, and political goals (Sandbrook et. al 2007:27). Another feature of this regime is that the government consults organized groups, including employers. Thus, the consensus tolerates persistent differentials in wealth and accepts the inviolability of private property as the price of economic dynamism. The implicit class compromise rests on the premise that everyone wins from economic growth, through profits, side-payments to deprived groups, subsidies on basic goods, labour market policies and improvements in public services and benefits.

In the Classic type of social democracy, the state is extensively involved in economic life (Sandbrook et al. 2007:27). It does this by regulating labour markets to guarantee that employees benefit from productivity growth, by ownership of utilities, equity stakes, and sector specific promotional agencies, and orchestrating incentives to domestic and foreign investments to promote conformity with its industrial strategy. Hence, democratic development states "pick winners" and channel the benefits of economic success to popular constituencies, as well as to business. This finely-balanced regime demands a committed leadership and an effective state to balance equity with growth in a competitive political system

2.3.3 - Third Way social democracy

Third Way social democracy is touted as a modernized social democracy that has adapted to the realities of a globalized capitalist economy. Tony Blair is considered as the major exponent of this reformed version of social democracy, but Sandbrook et al. (2007) claim that it is more accurate that this path was pioneered not in Britain, but in Chile under the Concertación³ since 1990. Another recent case is Uruguay, after exiting from military rule in 1985 to pursue a mildly social democratic path until radicalization in 2004-2005.

According to Sandbrook et al. (2007), a typical feature of the Third Way social democratic regime is its commitment to address equity by equipping citizens with the skills, education, and healthy conditions they need to succeed in market competition. Taxes are used to support basic public health and education systems, combined with a basic social safety net to help those who cannot fend for themselves in market competition.

In a typical Third Way regime, labour markets remain largely flexible, though the government presses for basic collective bargaining rights and adequate minimum wages to assist workers (Sandbrook et al. 2007:28). In the economy the state's role is not of a laissez-faire character. State agencies play an extensive role in promoting export industries and economic growth. In sum, states that employ the Third Way approach work at the margins to "(...) enhance the equity and promotes poverty reduction growth, but do not confront inherited inequalities" (Sandbrook et al. 2007:28).

Sandbrook et al. (2007) claim that the Third Way kind of a social democratic system has several elitist features. They also claim that the Chilean system, which is a "(...) minimal and grudging social pact" (Sandbrook et. al. 2007:148) was orchestrated by the country's political elite in 1990, when Augusto Pinochet stepped down as president the same year. The term political elite refers to the top leadership of Concertación, labour and business, which signed several agreements where labour accepted the right of private property and the continued pursuit of export markets and foreign investment. Business agreed to recognize the right of trade union organizations to exist and operate. It also agreed that the state must guarantee

³ Concertación being the major social democratic party in Chile.

equality of opportunity, provide protection to the weakest members of society, ensure full employment and eradicate poverty.

By using these classifications, I aim to also classify the Post-Apartheid South African case, and further explain why I believe it belongs in this category.

2.4 - The independent variables - only one way to social democracy?

When trying to understand the South African case, one cannot help but wonder: is there only one way of building a social democracy? Sandbrook et al. (2007), suggest there are several ways to create a social democratic system:

"This comparative study suggests that, though there are multiple paths to social democracy in the periphery, certain historical conditions favour such outcome (...) But what was critical in all cases was (a) a civil society that provided spaces in which subordinate class interests could self-organize, and (b) a state that had sufficient autonomy from dominant interests to respond to societal pressures and enough capacity to do so effectively" (Sandbrook et al. 2007:211).

In other words, there are many roads to Rome, and I choose to interpret their statement to mean that there is no accurate roadmap for achieving social democracy, and the list below shows possible obstacles, and factors that may be beneficiary for the creation of a social democratic system. In this study, I choose to focus on the obstacles that neoliberalism may create in the building of a social democracy. Before I explain the main independent variable (the constraints made by neoliberalism), it is necessary with a general review of additional possible factors connected to the building of a social democracy.

The most important independent variables to explain the success, or failure, of emerging social democratic regimes, according to Sandbrook et al. (2007) are the following:

1. No capitalism, no social democracy;
2. No class compromise, no social democracy;
3. A strong civil society and autonomous organisations;
4. Critical juncture;
5. The constraints of Geopolitics;
6. Neopatrimonialism;
7. The constraints of Neoliberalism.

Even though there are many conditions for and obstacles to achieving social democracy, I choose only to look at one main variable. Since space is limited. The result of including every variable would be that each variable would only be partially examined, which would make the paper vague and shallow. The variable I will examine more closely is the role of neoliberalism, more specifically how neoliberal advocates were able to convince the ANC to pursue a neoliberal path for Post-Apartheid South Africa. One reason for looking into this is that South Africa's transition was taking place in an era when the neoliberal economic model was more or less hegemonic. Before I explain how this variable might have influenced the building of a social democratic system in South Africa, I will review the other variables used in Sandbrook et al. (2007) and explain why I choose not to focus on them in their study of the South African case after 1994.

2.4.1 - No capitalism, no social democracy

“Social democracy is a response to capitalism: no capitalism, no social democracy” (Sandbrook et al. 2007:178). Capitalism is not equivalent with social democracy. If this were the case, The United States of America would be the largest social democratic country in the world. Without giving a clear definition on what capitalism is, they claim that “A stunted or undynamic capitalism, such has prevailed in most countries of the global periphery, inhibits the emergence of social democracy in three ways. It restricts the material resources available for distribution, leads to weak subordinate-class formation, and is associated with weak states” (Sandbrook et al. 2007:178).

A capitalist system is important for two reasons. The first is that a country needs capitalist development so it has a strong material base of resources available for distribution. The other reason is that without a capitalist economy the chance of having a strong organized labour class and subordinate class formation is also much smaller. This argument is very similar to Karl Marx's notion that the building of a developed industrial capitalist system creates an urban proletariat, which again may trigger a communist revolution.

In other words, you cannot create a social democracy without having a capitalist development; “The path to social democracy in our four cases begins with capitalism – the early development of an enclave mining economy in Chile, and the deep commercialization of agriculture in Kerala, Mauritius, and Costa Rica; The impact of capitalism on democracy and social democracy is mediated through the particular patterns of class formations it triggers”

(Sandbrook et al. 2007:178). Capitalism is a prerequisite for the development of social democracy.

Why not pursue this variable more closely? There is a consensus that South Africa has the most developed capitalist economy, with a relatively high Gross Domestic Product (GDP) per capita and a diversified economy compared to other countries on the African continent. If capitalist development in South Africa had not been sufficient in creating a strong economic base, no country in Africa would be capable of creating a social democratic system, Mauritius included.

2.4.2 - A strong civil society and autonomous organisations

"This comparative study suggests that, though there are multiple paths to social democracy in the periphery, certain historical conditions favour such outcome (...) what was critical in all cases was (a) a civil society that provided spaces in which subordinate class interests could self-organize, and (b) a state that had sufficient autonomy from dominant interests to respond to societal pressures and enough capacity to do so effectively" (Sandbrook et al. 2007:211).

A robust civil society creates the spaces where subordinate groups can associate and self-organize, and again increases the likelihood that these groups will become political actors with the capability to independently articulate their interests, which very often is the safety-net a social democratic policy can provide (Sandbrook et al. 2007:183). On the other hand, it is not given that a strong civil society and a mobilization is the same as more democracy, or social democracy for that matter. Examples like the Nazi mobilization in the Weimar Republic, and the rise of authoritarian regimes in Spain and Italy during the inter war period come to mind (Sandbrook et al. 2007:183).

Observers and comparative studies have found Scandinavian countries to have the highest level of associational life in advanced democracies and further suggest an affinity between civil society and social democracy. According to Sandbrook et al. (2007), the affinity exists through two mechanisms: "First, the nature of civil society shapes the form of subordinate-class self-organization" (Sandbrook et al. 2007:184). In Sweden, a vibrant mass based civil society emerged in the nineteenth century, and included temperance movements, free churches, the labour movement and cooperatives. These movements were highly organized and independent before the event of electoral politics. In general, social democratic parties

emerged in European countries where the working class was already well organized at the turn of the twentieth century (Sandbrook et al. 2007:184).

“Secondly: civil society can also pave the way for social democracy by facilitating inter-class coordination” (Sandbrook et al. 2007:184). By this, we mean, in theory, that strong civil society raises the possibility of avoiding conflict in distributional questions. Sandbrook et al. (2007) write the following; “If social democracy requires a continuous negotiation and renegotiation of distributional conflicts, it follows that, dense, horizontally linked civil society structures can greatly facilitate that process. This is obviously true in an organizational sense, namely that the presence of robust and legitimate intermediary bodies reduces the transactions costs of coordinating interests (Sandbrook et al. 2007:184).

The final piece of the configurational analysis is the state, both because of the direct way in which it shapes political life and because of its key role in promoting social and economic development. States help determine which interests are represented and how they are coordinated. This again means that the state is central in creating a class compromise (Sandbrook et al. 2007:185).

South Africa has what Anthony Butler calls a “(...) vibrant civil society” (Butler 2009:150). Civil society is a central part of the South African history and legacy from the Anti-Apartheid struggle, mainly caused by the lack of democracy in the era of racial segregation. During the era of racial segregation, elective democracy was, with a few exceptions (Deegan 2001:20), closed for non-whites. This resulted in a vibrant civil society which fought for the rights for those who were not protected by the privileges of the Apartheid umbrella.

During Apartheid, one organization in particular was essential for bringing together a broad front against the Apartheid government. This organisation was the United Democratic Front (UDF) (Butler 2009:151), which became crucial in the final struggle for the prevailing of democracy. Another organisation which was important during the fight against racial segregation, and after 1994, is COSATU. COSATU is a part of the ruling alliance in South Africa, together with the ANC and the SACP, and has been very influential in the making of labour laws and building semi-corporatist structures like the National Economic Development and Labour Council (NEDLAC).

In South Africa, many branches of civil society are in alliance with or highly sympathetic towards the ANC (Freidman 1999:116). COSATU has already been mentioned as an

important alliance partner of the ruling ANC. The ANC is also assumed to exercise a great deal of influence within the “SA Council of Churches, key black-owned businesses, and a host of non-governmental organisations working in areas ranging from development or culture to advocacy issues such as the environment” (Freidman 1999:117). In South Africa, those within the embrace of the ruling party will enjoy greater influence than those on the outside.

I would claim that South Africa has a vibrant civil society. With that said, however, it does not mean that all of civil society is doing great and everything is perfect. As mentioned, many Non-Governmental Organisations (NGO) were active in the battle against Apartheid. Many of these organisations have been struggling after 1994. Not because the ruling party, the ANC, has struck them with an iron fist, but as a result of resource shortages and limited access to the media and because of a different political reality (Freidman 1999:152). One of these actors that closed down in the beginning of 2013 is the Institute for Democracy in South Africa (IDASA).

It is hard to measure the strength or the robustness of South African civil society, but the fact that South Africa has the biggest organized industrial working class and a history of strong social movements justifies my choice not to pursue this variable more closely.

2.4.3 - No class compromise, no social democracy

As said, a commercialised organization of the economy creates a class society, and can trigger what, in theory, is essential: a class compromise (Sandbrook et al. 2007:18). “If the essence of social democracy is class compromise, a particular model of such compromise characterize the Northern European cases” (Sandbrook et al. 2007:18). In Scandinavia, this compromise consisted of organized labour, capital and the state as a mediator and enforcer. On the one hand, the organized working class accepts private ownership of the means of production and the fostering of conditions favourable to the profit of private firms. On the other hand, capitalists agree to some rate of investments out of these profits to create jobs, and some rate of transfer from profits to wages and tax supported services and social insurances. The Scandinavian welfare state is partly or fully a result of such compromise. Such cooperation between labour and capital normally facilitate the material basis of class compromise and protects profits from undue demands from below. From a corporatist point of view, radical distribution is not viewed as a policy in the interest of the workers, as this leads to

disinvestments, rising inflation, and, as a result, growing unemployment (Sandbrook et al. 2007:18-19).

According to Sandbrook et al. (2007), in the political South, social democrats usually pursue class compromises before a productive capitalist system has generated a strong material base. The oil rich state of Venezuela in the periphery, on the other hand lacks a class compromise between organized labour and capital, and is today a highly polarized country (Sandbrook et al. 2007:245). Clear examples are the high temperature in Venezuelan politics, and that, on several occasions, the Radical government under Hugo Chavez had been the subject of attempted coup d'états.

How do we measure the degree of class compromise? There is no way to measure, at least not in a mathematical sense, the degree of class compromise in a country. What we would have to look for in the South African case is whether the state orchestrates cooperation and compromise between the unions and the business associations in South Africa. Do these actors cooperate? Do the unions respect the private ownership of the means of production? Is capital willing to let some of their profits go to wages and tax supported services? Is there a consensus between these actors? One such organization that exists is NEDLAC. One way to increase our understanding of the degree and depth of class compromise is to study NEDLAC and similar forums (Nedlac 2014).

Several authors with close ties to the labour movement (Baskin 2000, Webster 2001) have claimed that the Post-Apartheid policy is a manifestation of a class compromise. Examples are the business friendly environment, with a pro-capitalist climate and macroeconomic stability. On the other side, you have labour achievement in terms of labour legislation, especially the Labour Legislation Act, which is considered quite progressive in terms of giving workers rights in the labour market.

South Africa shows signs, or at least there is some indicators showing that there exists, to some degree, a class compromise. As space is limited, and there are other more relevant variables, I choose not to pursue this variable more closely.

2.4.4 - Critical juncture

An important factor in the creation of a social democracy is what Sandbrook et al. (2007) call “Critical Juncture”, which can be described as a process and an event that changed the

trajectory to a more social democratic policy. For Costa Rica, the critical juncture started with the demands made by smallholders for protection from the markets and the social reforms in the 1920 and 1930s. The real critical juncture was the civil war of 1948, where the moderate left won over the radical left, and the elite made confessions and took part in the building of a democracy with social rights.

In Kerala, the juncture begins with the cast reform movement in the south and the agrarian reform movement in the north of the region in the 1930s, which culminated with the electoral victory of the CPI in 1967. For Mauritius, the critical period begins with the agrarian crisis marked by labour militancy in the 1930s, which triggered a cycle of continuous pressure for social and political change that lasted until the decolonization of the country in 1968. Before the British left, they handed over power to the Hindus, who made a compromise with the lower classes, which included some redistribution and creation of a welfare system. In Chile, the agrarian problem was contained, but not resolved. Until the 1960s, the landed elite in the country exercised tight social and political control over the countryside, which culminated in a radical mobilization period between 1964 and 1973, which in the eyes of the elite went too far. Their response was the coup d'état in 1973. The mobilization was crouched, which explains the limits of the social democracy in contemporary Chile.

In many ways critical juncture is not an actual variable, and as a result not something worth pursuing directly. The critical juncture is more of an event that could culminate into a condition where the creation of a social democratic system is possible. In the case of South Africa, the critical juncture may have been the ending of Apartheid, and the ANCs victory in the 1994 election.

2.4.5 - Geopolitics

Geopolitics can indeed change the course of history. This was especially the case during the Cold War. The global superpowers USA and the Soviet Union, put down regimes in their backyard that strayed in the wrong direction (Sandbrook et al. 2007:187). Chile is one such example. It is possible to claim that the Apartheid system in South Africa was artificially kept alive during the Cold War. The main reason for this was because the USA, and to some degree Great Britain, let the regime do their thing because they were committed to the anti-communist cause against the Soviets and their partners on the African continent (Terreblanche 2012:7). One such conflict was the South African Border War, between the South African

armed forces and guerrilla groups in Namibia and Angola, backed by Cuba and the Soviet Union (Ellis 2012:110-112).

This is no longer the case. The Cold War is over. The likelihood of a foreign, or foreign backed intervention in South Africa triggered by the South African states' wish to create a welfare state is highly unlikely. One problem with this notion is that can create the impression that there is no geopolitical constraints and limitations, and that South Africa after 1994 was in a position to follow all kinds of social and economic policies without external pressure. This is not true. After the Cold War, the socialist economy lacked legitimacy, and it is not unrealistic to believe that capitalist economies in the West and international finance institutions would try to isolate South Africa if they choose to follow an economic policy that differed too much from a western style market economy.

2.4.6 - Neopatrimonialism

One thing that has permeated the political and cultural life on the African continent, since the end of the colonial era, is neopatrimonialism. Neopatrimonialism is seen as an obstacle to achieving anything that is considered to be the common good, and social democracy (Sandbrook et al. 2007:67). From a theoretical point of view, patronage creates a climate where, for example, social programs have been driven more by patronage politics than programmatic goals. The result of this policy is that the rural poor have been denied the right to public services.

The extent of neopatrimonialism in South Africa is a topic that has been heavily debated during the last decade. Many academics and political commentators have warned about the growing level of corruption in the country, and in particular within the ANC. There are many examples, but one in particular illustrates that there is not always equality before the law, and that being a part of the ruling party works as a protective shield from being accused of corruption. This one example is the case of Julius Malema, now leader in the newly registered party, Economic Freedom Fighters (EFF) and previously the leader of the African National Congress Youth League (ANCYL). For a few years, Malema was a rising star within the ANC and ANCYL, and a strong supporter of Jacob Zuma's presidency against Thabo Mbeki at Polokwane in 2007.

Malema is today accused of corruption (News24 2013, 23.04.). Malema is not in any way the only politician accused of corruption in the world or South Africa. What is concerning with

his case is that Malema got away with charges of corruption when he was a central character inside the ANC. After he was expelled, he was no longer under the protection of the ANC, and had to face trial. Malema is accused of having made nearly four million Rand from corrupt activities, and faces charges of fraud, corruption, money laundering, and racketeering.

So, to make a long story short, this is a highly interesting phenomenon and a study on how this may have interfered with the building of a social democracy after 1994, could have been fascinating. Since I have limited space to work with, and because Sandbrook et al. (2007) do not speak of this as a main variable, I choose not to pursue this any further at this time.

2.4.7 - The main variable in the study: Neoliberalism

“Globalization is another obstacle to social democracy in the periphery” (Sandbrook et al. 2007:249). As previously said, the golden age of social democratic systems was during the Bretton Woods period after WW2. The climate in the world of economics has changed significantly since the crumbling of this system in the 1970s. With the renaissance of global liberalism in the 1980s, the climate for social democratic regimes also changed. Policies were restricted, and governance reform in the shape of democratization rarely served to empower the poor (Sandbrook et al. 2007:49). The international neoliberal regime left little room for an active developmental state in economic and social politics (Amsden 2007). Sandbrook et al. (2007) claim that despite the fact that states have less autonomy to pursue social democratic politics, there is room to achieve growth through globalized markets with extensions of political, social and economic rights, within a capitalist and liberal world order.

A conventional interpretation of economic globalization is that it undermines the autonomy of nation states in policymaking areas that were the pillars of the social democratic developmental state (Sandbrook et al. 2007:219). These areas include the use of monetary tools to expand the economy, and the channelling of tax-supported public investments to meet social need. Furthermore, globalization limits the wielding of industrial strategies to orchestrate private investment, and the protection of national manufacturers through government procurement and domestic content rules. This is what we may call macroeconomic variables.

Despite this, they also claims that social democracy is possible and desirable in a globalized economy; “(...) the four examples have preserved or even improved their social achievements since neoliberalism emerged hegemonic in the 1980s. Certain social-democratic policies and

practices – including the action of a democratic developmental state – can enhance an economy’s global competitiveness” (Sandbrook et al. 2007:4). The book claims that social democratic regimes, as a contrast to the market orthodox assumption, have given these cases an edge in a globalized economy.

But let us focus on the possible constraints made by globalization. Sandbrook et al. (2007) divide the potential “globalization constraints” into three areas: (1) trade competitiveness pressures, (2) the multinationalization of production and foreign direct investment, and (3) the integration of financial markets (Sandbrook et al. 2007:220).

(1) trade competitiveness pressures

With the globalization of world trade, openness is likely to result in greater pressure on workers’ benefits that are directly tied to companies, like wages, pensions and unemployment insurance. With a situation that is characterized by several authors as a “race to the bottom” (Sandbrook et al. 2007:221), governments, in order to maintain the country’s competitiveness, are forced to lower taxes, which again leads to lower tax revenues and a lower degree of social welfare, and impose wage restrictions and liberalize labour laws, which again leads to lower wages and fewer “high quality jobs”.

This “race to the bottom” argument claims that with the increasing globalization, which includes free trade regimes upheld by organizations like the WTO, the state’s possibilities to have an active industrial policy are limited. An important part of social democratic policy building after WW2 was a state that promoted and protected growing industries by regulating tariffs and used subsidies to build up industries to compete on the international market (Sandbrook et al. 2007:216). GATT, and later the WTO, became more and more central in the dismantling, not only of non-tariff barriers to trade, but since the 1980s going even further to build down all kinds of barriers. Its jurisdiction not only covers trade in goods and discriminatory trade practices, but also intellectual property and patents, trade in services, technical, procurement, sanitary and phytosanitary standards, and measures of any kind that might be deemed as discriminating against, or unfairly limiting foreign investors (Sandbrook et al. 2007:216).

How can this be a threat to the building of a social democratic regime? “WTO rules ban policies that developmental states once utilized to improve well-being and to solidify horizontal linkages and fuel dynamics, notably export subsidies, domestic content and

procurement requirements, and quantitative restrictions on imports. The General Agreement on Trade in Services complicates developing countries' effort to protect public-sector service provision from foreign competition. The Trade-Related Aspects of Intellectual Property Rights accord raises the cost of medicines, technology, and scientific knowledge, and increase flows of rents from less-developed countries to northern patent and copyright holders” (Sandbrook et al. 2007:216).

International trade institutions, like the WTO, have long called for the privatization of public sector service provision, and state owned enterprises in general, often as a way of reducing fiscal deficits (Sandbrook et al. 2007:218). Examples are the privatization of postal services, electrical generation and transmission, railways, insurance, health care, higher education and water distribution, among others.

Liberalization imposed on developing countries under the new trade regime stands in stark contrast to the protectionist policies historically employed in virtually all of the now developed countries. According to the authors, this free trade paradigm has affected, in particular, the textile industry.

Sandbrook et al. (2007) claim that the liberalization of trade is not necessarily a race to the bottom. The authors say, based on their four cases, that a welfare state and social infrastructure can give a competitive edge in a globalized economy, because the state provides basic welfare for the people, good infrastructure and as a result of accessible education, an educated and skilful workforce (Sandbrook et al. 2007:221).

My expectation within the field of trade

I expect, if international trade organizations, like GATT and WTO, have been influential in Post-Apartheid South Africa, that the state would have little room to pursue what we could call an active developmental state-policy within the economy. If this was the case, the government of South Africa would not been able to use subsidies and tariffs as tools to target industrial strategies which where the most prominent instruments used by Classic social democratic regimes in both Western Europe and the global periphery. This to secure full employment in the economy.

Another expectation is that pressure from organizations like the WTO would lead to a weakening of labour protection, as a result of trade competitiveness pressures. Protecting workers has been an important element in most social democratic countries along with the

creation of “good jobs” (Sandbrook et al. 2007:26); these countries have traditionally used subsidies and tariffs to secure full employment. I expect that GATT and WTO were active in trying to implement a macroeconomic model and reforms that were built on a neoliberal economic framework, where the state was not allowed to have a significant role in the economy, and be able to use these tools.

(2) The multinationalization of production through foreign direct investment

In a globalized world, capital flows (almost) freely across borders. This second challenge is tied to what we may call “exit threats” (Sandbrook et al. 2007:222). One kind is when capital, if it is not satisfied with their working conditions (wages, taxes and similar factors), threatens to move its money elsewhere where conditions are more favourable in order to discipline labour and national governments. If we follow this logic, the possibility of states’ imposing taxes on the corporate sector are very limited, which further limits the disposable revenues to social welfare, and capabilities of an active and dynamic state. This claim is mostly valid for the exit of labour intensive, low value added kinds of manufacturing, such as in the textile industry. In particular, this has been the case for textile producing countries in Latin America in recent years.

This is not necessarily the case in all sectors. In high technology export sectors, wage cost usually constitute only a small portion of the total value added; they are not, therefore, the primary consideration in locational decisions by transnational corporations (Sandbrook et al. 2007:222). Sandbrook et al. (2007) claim that corporations are more concerned with labour productivity and political stability, than with low wages and taxes. The first is an area where social democratic systems have been able to provide for such. One piece of “evidence” for this is that most Foreign Direct Investment (FDI) flows to OECD countries, where wages are relatively high.

The authors claim that the four social democratic cases have received their fair share of FDI, and important sectors have been willing to pay a larger share of taxes in return for reaping advantages of social expenditures. “Yet the social outcomes depend on political conditions. The viability of social democratic models under neoliberalism is closely linked to strong labour movements or cross class coalitions that act as a check on political elites push for retrenchment on the welfare state” (Sandbrook et al. 2007:223).

My expectations

Globalization has affected South Africa. As a result, within this field, I expect to find that the South African corporate sector was active during the transformation period (1990-1994) pushing for an “investment friendly environment” with the decrease of corporate taxes, investment regulations and a limited role for the state in the economy. I also expect to find that the South African business sector has been pushing for wage constraints. The concept of a very passive state stand in direct contrast to the role of the state in most social democratic regimes, at least the Radical and Classic type classified by Sandbrook et al. (2007:26-28), but more in line with the reformed Third Way.

If neoliberal advocates have been successful in convincing the ANC to create a so-called business-friendly environment, it is not unlikely to expect that the Post-Apartheid government has chosen a more passive role for the state in the economy. Consequently, if South Africa is a social democracy, it will have a Third Way character, where market-led growth is the main means to distribute wealth, and because of limited taxes, the state does not have the means to build a comprehensive welfare state.

(3) The liberalization and integration of financial markets

The authors claim that organizations like the IMF: “(...) Radically (in the 1980s) reshaped economies and societies throughout the developing world” (Sandbrook et al. 2007:214). According to the authors, the IMF and other international finance institutions leave little room to pursue an independent macroeconomic policy that is radically different from what the IMF advocates. The IMF has been one of the most important creditors for struggling economies in the global south. With its loans come a list of criteria and demands to follow an economic orthodoxy. The IMF has been accused of providing a single blueprint for different countries with diverse macroeconomic problems (Sandbrook et al. 2007:214). These blueprints have in many cases consisted of demands to:

- Reducing budget deficits and public sector payrolls;
- Devaluating currencies;
- Flattering tax regimes to encourage export-oriented investments;
- Judicial reform to guarantee property rights and enforcements of contracts; and
- Reducing or doing away with subsidies and non-tariff barriers to trade (Sandbrook et al. 2007:215).

My expectations

I expect that if the IMF has been present in the restructuring of the Post-Apartheid economy, that the organization has called for Structural Adjustment Programmes⁴ (SAP), which most likely have included a tight fiscal policy, and constraints on governmental deficit spending. One obvious consequence is that a tight monetary policy limits the disposal of funds for the building of physical and social infrastructure, which limits the state's possibility to directly improve the conditions for the marginalized parts of the South African society, and to redistribute wealth.

The IMF very often demands the strengthening of property and intellectual rights. One consequence is that this limits the South African state's opportunity to pursue land reform and the nationalization of strategic sectors in the economy, which was taking place in Radical and Classic social democracies before the 1980s. This again would limit South Africa's chance of becoming a Radical or Classic social democracy.

I also expect to find that the IMF has called for the removal of exchange control, cutting export subsidies and the removal, or lowering of trade tariffs. This also means that one also removes the tools that the state needs to play an active role in the economy and to promote industrial policies, which was an important part in the social democratic policies in the classical social democratic countries in Western Europe and Radical and Classic social democratic cases used by Sandbrook et al. (2007:26). If the IMF has been successful, this could mean that if South Africa is a social democracy, it is most likely a Third Way type.

The big question

One fundamental question remains; if we see globalization on all three fronts (trade competitiveness; production multinationalization; financial market integration), is there any chance for social democracy? Sandbrook et al. (2007) imply that there is, but, most likely a social democratic regime without its traditional social democratic tools, mentioned above, would most likely be a Third Way social democracy.

⁴ SAPs, primarily demanded by the IMF, entail the liberalization of economies to trade and foreign investment as well as the reduction of state subsidies and bureaucracies to balance state national budgets (O' Brien & Williams 2004:238).

Chapter 3 - Is South Africa a social democracy?

3.1 - Introduction

Chapter 3 will focus on the performance of the South African case after 1994, in the progress of achieving social democratic goals. I will focus on the achievements made on social issues, and not the building of the countries macroeconomic system and structure after Apartheid, since this issue will be dealt with later in this thesis. I will use table 1 as my starting point to evaluate the performance, and by using this, try to classify South Africa according to the categories used by Sandbrook et al. (2007:26).

In table 1, Sandbrook et al. (2007) classify their cases on the background of three dimensions: a conception of equity, a conception of democracy and the role of state. In this chapter, I only will review the conception of equity and the role of the state, since this thesis does not focus on democracy per se. The focus will be on the degree to which the ANC government has been able to build a welfare state, provide housing, nutrition, poverty reduction and redistribution, pension, subsidies, grants and labour market regulations. On the basis of my findings I hope to justify my conclusion that Post-Apartheid South Africa is a Third Way social democracy.

What to expect

If we look at the features described in table 1, it creates a set of expectations about how the South African case would look like if it were a Radical or Classic social democracy.

If South Africa did develop into a Radical social democracy I would assume, based on Sandbrook et al. (2007), that the state implemented mechanism to reduce inequalities, and redistribute assets from the more wealthy parts of the society, in favour of the marginalized population in South Africa. This could imply raising taxes to increase state revenues, making it possible to implement housing, sanitation and nutrition programmes, further increasing grants, subsidies and building a comprehensive welfare state.

If South Africa had the features of a Radical social democracy, I would expect the government to implement a set of expansive rights, on different levels in society. The most important of this being labour laws to protect the interests of the workers in both the formal and informal parts of the economy, and introducing regulations and minimal wages.

If South Africa was a more Classic social democracy, the role of the state would be less present, and the focus would not so much be on redistributing, but more on creating a comprehensive welfare state, and providing universal services and pensions. To a much larger degree, according to Sandbrook et al. (2007:26-28), the state focuses on creating growth by using industrial strategies to secure employment and redistribution.

If the South African case is a Third Way social democracy, I would expect to find that the state was less “ambitious” and the concept of equity more guided towards programmes targeting poverty reduction and a safety-net targeting the most needed in the society, and not in a broad sense with expansive right and a security system covering a wide range of welfare benefits. If the South African is this kind of a system, I also expect that the states’ primary tool to create growth is to promote investments and emphasise a market-based growth, and that the state plays a limited role, without interfering directly in the economy.

My problem

Despite the effort of trying to identify the South African case based on several criteria, there is a possibility that South Africa is not a social democracy at all. How do I know that South Africa is Third way social democracy, when it maybe is not a social democracy at all, or perhaps a Classic or Radical social democracy, no matter how unlikely it may be? It is a legitimate question. Since it is problematic to measure the strength of a social democracy, at least not in a mathematical sense, I can only assume by using the characteristics of Sandbrook et al. (2007:26-28) that it is a Third Way social democracy. On the other side, I must again highlight the purpose of this thesis: I wish to examine how neoliberal actors and structures have shaped the development of the South African economic policy after 1994.

3.2 - Social democracy in South Africa: how far, and how deep?

Despite the fact that the four cases used in Sandbrook et al. (2007) are very different, they resemble each other in their exemplary socioeconomic development. Each has achieved an exceptional record, compared to others in their region or country. Kerala in relation to other Indian states, Costa Rica in Central America, Chile in Latin America and Mauritius in Africa. They have all been able to provide primary health care, clean drinking water, adequate sanitation, nutrition programmes, comprehensive immunization, and access to basic medical services. Not surprisingly, the life expectancy in all cases is over seventy years, compared to an average of sixty-four years for all middle and low-income countries (Sandbrook et al. 2007:9).

Before Nelson Mandela took office as president in 1994, he promised “a better life for all”, and to some degree, many South Africans have experienced better service delivery and material welfare. There has been some sort of progress in the building of social welfare and infrastructure. Given the following definition: “(...) a baseline definition of social democracy is an activist state that can secure basic social rights, provide protection against market forces, and reduce inequality” (Sandbrook et al. 2007:68). How far has Post-Apartheid South Africa come?

A snapshot of delivery

Let us start with the basics. When it comes to life expectancy, development in the last twenty years has been extremely depressing. Life expectancy fell from 62 years in 1990 to 48 years at the end of the millennium. The reason was the spread of AIDS. During the presidency of Nelson Mandela and Thabo Mbeki, HIV and AIDS were largely ignored, with dire consequences for millions of South Africans (Butler 2005). Despite this, there have been some social improvements in South Africa after the end of Apartheid. The governments’ effort has primarily been through new and comprehensive labour laws, and the national budget (NPAID 2012:39). The budget has been used to improve services, housing and financial support for poor households on a vast scale, and the implementation of a minimum wage and progressive labour laws have improved the situation for the formal low wage sector.

In 1994, 30% of the population lacked access to a safe supply of water near their homes. Between 1994 and 2000, three million people have benefited from the water supply programme. In 1994 less than 40% of the homes were connected, in 2000 this number had increased to 63% (Marais 2001:190). The primary school nutrition programme reaches about five million children; while about 10,000 classrooms have been build or repaired. The state has also provided a relatively high number of houses. Pregnant woman and children below the age of six now qualify for free medical care at 638 clinics (between 1994 and 2000) (Marais 2001:190). The housing subsidy scheme contributed to the building of 630 000 houses between 1994 and the year 2000.

Like everything else, the national budget in South Africa during Apartheid was extremely beneficiary for the white minority. This was very much the case in the field of education. Even though this has changed dramatically after 1994, the right to education is not for everyone.

Less poor, more unequal. The social development after 1994

Many writers have tried to describe social development in South Africa after 1994. Hein Marais (2011) has described the Post-Apartheid system as “less poor, more unequal” (Marais 2011:208). The income distribution in South Africa is exceptionally unequal. In 1994, South Africa was the second most unequal country in the world. In 2011, it was the most unequal country in the world (Marais 2011:33). Marais also claims that the number of people living under the absolute poverty, under one US\$ a day, grew between 1995 and 2002, from 9,4% to 19,5%. Rampant job losses in this period were the main cause of this trend. On the other side, other actors have made contrary findings, claiming that the percentage of South Africans in the lowest “living standard measures” category shrank from 20% to 5% between 1995 and 2001 (Marais 2011:204). This makes it difficult to say if poverty has been reduced after the end of Apartheid, and is highly related to how you choose to measure poverty.

What is more certain is that inequality in South Africa has risen, not drastically but steadily, after 1994 and until 2013. The wealthiest 10% of South Africa’s population earns 51% of the income, while the poorest 20% control only 1,4% of the total income (NPAID 2012:37). The inequalities in contemporary South Africa follow the same patterns from the era of racial segregation. Inequality in South Africa remains strongly marked by race and gender, where white men are the most privileged in the society.

Labour law reforms in South Africa

An important part of the social democratic systems in Kerala, Chile, Mauritius and Costa Rica was the implementation of progressive labour rights, as a part of a bigger security system of rights and duties. The ANC government reformed the labour laws fundamentally between 1997 and 2004. By 2010, estimates suggested that some five million workers in South Africa, or around 40%, were covered by a minimum wage determination. These new laws vastly improved job security for the African workers in the formal sector. The Employment Equity Act of 1998 focused on encouraging more representative management in terms of race and gender, and to prevent unfair discrimination within the labour market (NPAID 2012:36-37).

The implementation of progressive labour laws is considered as COSATU’s major victory within the Tripartite Alliance⁵. “Tripartism has yielded the unions certain historical gains, including the passage of relatively progressive labour relations legislation, including some

⁵ Tripartite Alliance is the political and electoral alliance between the ANC, SACP and COSATU, and has many similarities with the relationship between the social democratic parties and the trade unions in Western Europe.

elements of the Labor Relations Act 1995, the Basic Conditions of Employment Act 1997, the Employment Equity Act 1998, and the Skills Development Act 1999” (Bramble 2003:187). The organized South African labour movement has been able to promote its interests, and secure the rights of organized, employed, people in South Africa. This is not the case with unemployed people, and those in the informal economy.

3.3 - South Africa: a Third Way social democracy

In this last section of this chapter, I argue that South Africa after 1994 is a Third Way social democracy. The main reason is that the ANC accepted a macroeconomic framework where it was supposed to cut taxes; state spending, and limit the role of the state to create a business-friendly environment. This resulted in a policy where the state did not have a direct approach in dealing with the legacy from Apartheid, but accepted a policy where the business-friendly environment was to create jobs and economic growth, and in the next instance trickle down to the poorest part of the South African population. This section argues that the Post-Apartheid government has only been able or willing to fight extreme forms of poverty, like the Third Way case in Chile, and not redistribute wealth like the Classic or Radical cases.

Let us consider a counter-factual for a second: what would a Radical or Classic type of social democracy look like? Personally, and based on the classification by Sandbrook et al. (2007:26-28), I would expect to find that South Africa would develop such that equality was increasing, not decreasing, after 1994. I also expect to find that the state took a more active role in the shaping of coherent industrial policies and a more hands on approach to the economy. I would also expect that if South Africa was a Classical or Radical type, it would have built a more complete welfare state: a comprehensive security system.

There are several reasons for the extent of poverty in South Africa. The report “Inequality Watch” made by the NGO Norwegian Peoples Aid (NPAID), highlights several factors. One is the unemployment rate that has been sustained at a very high level in the past twenty years. In 2011, South Africa ranked among the top ten countries with the highest unemployment ratio, and with the lowest share of the adult population with paid employment (NPAID 2012:34). The inequalities in contemporary South Africa follow the same racial lines as in the Apartheid era. The wealthy minority in South Africa is predominantly white, and the poorest part is for the most African and coloured. Even though the white elite have lost control of the state apparatus, they still dominate within economics.

Mbeki stated that “(...) it would be difficult to find examples elsewhere in the world where a negotiated transfer of power took place, where such progress was achieved in so short a period of time to redefine the nature of the new society” (Marais 2001:190). His claim has some merit. Some social infrastructure has been build, but the society has not in any way been redefined. Because of lacking progress and results, it is hard to provide sufficient “evidence” showing that South Africa after 1994 is “something more” than a Third Way social democracy. If we use Sandbrook et al.’s (2007) classification of social democratic regimes, shown in table 1, it is possible to claim that South Africa could be classified as a social democracy. If that is the case, I argue that it is a Third Way kind, based on Sandbrook et al. (2007) list of three criteria: equity, democratic participation and the role of the state in guiding market forces.

Let us start with the last one: South Africa, after 1994 has emphasized market-based growth, and this was to be achieved by creating a business-friendly environment that would attract investments, FDI in particular, and create economic growth and jobs. The state has had a very passive role in the economy, and has not had an active industrial policy, which are important elements in the Classic and Radical version of social democracy. Even though South Africa is primarily neoliberal in its economic policy, it has some characteristics that are more typical for a Radical and Classic type of social democracy. For example, the regulations of its labour markets. The labour laws in South Africa, which are considered to quite progressive, have been looked upon as one of the great achievements of COSATU within the ANC-led alliance.

When it comes to the “Conception of equity” it is easier to classify Post-Apartheid South Africa. The state has been able to build some social infrastructure, like basic housing, sanitary facilities and economic grants, targeting the most marginalized people of South Africa. On the other hand, inequality in South Africa has increased in the period after 1994, and is today the most unequal country in the world. In the Radical and Classic types of social democracy, redistribution and the building of a comprehensive welfare state have been important aspects of its development. This has not been the case in South Africa, which has more in common with Chile after Pinochet. Within the field called “Conception of democracy”, it is a little difficult to give a complete answer, since this thesis has not been about the South African democracy per se; its focus is more on social and economic development after 1994 in South Africa.

3.4 - Conclusion

Based on the theory and the findings provided, I now feel it is legitimate to assert that South Africa is a Third Way social democracy. This will be the premise I continue to work on. Other writers has come to similar conclusions “Indeed, the ANC government has embarked on what might be termed a `third way of a special type` that share many key assumptions ad prognoses, but also inflected with a number of specically South African drawbacks and advantages”⁶ (Marais 2001:271).

⁶ The phrase “Special type” is a reference to a notion that the Apartheid system was colonialism of a special type. I will come back to this later in the thesis.

Chapter 4 – The South African case and its economy before 1994

4.1 Introduction

Sandbrook et al. (2007) devote a fair share of time in their book to describing the four cases' historic legacy. In this chapter, I will describe South African history to shed light on the nature of the decisions facing the ANC when it had to choose South Africa's path when it took power in 1994.

How is South Africa's legacy important? The beginning of this chapter will focus on the Apartheid system, and show how the system of racial segregation created a society with enormous social and economic division, that cut across racial and gender lines. I seriously believe that Apartheid and South Africa's history of racial segregation is the one aspect that has influenced the development of the South African society the most, and is highly important to know if we are to understand the country's social and economic challenges in the early 1990s, and the decisions facing the ANC. This makes it legitimate to include a brief section about the history of racial segregation. This is to highlight that even if political Apartheid is gone, economic Apartheid exists, in the sense of high economic inequality between the poor black majority and the relatively wealthy minority.

Another point is to show that there was an enormous demand for new social and economic policies, in order to undo the injustice from the era of Apartheid. An activist social democratic state was one such possibility, if not the only way to go.

Since this thesis is primarily about the macroeconomic decisions and paths that have been chosen by the ANC after Apartheid, it is essential to understand the state of the South African economy during Apartheid's latest stage, and the transition period. I will show that the South African economy was in a contradictory situation. On the one hand, it was the most developed and diverse economy on the African continent. On the other hand, it had been moving in a downward spiral for over a decade, with negative growth rates, low investments, industrial output and strikes organized by the emerging black trade unions. This chapter will also look at the NPs efforts to liberalize the economy, and bring it onto a new growth path, by implementing the Normative Economic Model (NEM).

The last part of Chapter 4 will review the ANC's economic policies after 1994: the RDP and GEAR, which have been the grand pillars in the Post-Apartheid economy. I will only layout the path chosen, and not explain why this path was chosen. This comes later.

4.2 - The legacy of Apartheid – and the nature of the decision facing the ANC

4.2.1 - South Africa – A history of racial segregation

To understand the racial, economic and social inequality in South Africa, one needs to understand South Africa's history of racial segregation. The election in 1948 put the NP in the government, which started a forty-six year rule of Apartheid (Welsh 2009:52). Racial segregation in South Africa did not start with Apartheid in 1948. What we call Apartheid was merely a formalization of racial segregation in South Africa as a state policy. Apartheid, literally, or apartness/separateness in the Dutch and Afrikaans language, is the name given to a policy of separating people by race (Clark and Worger 2004:1). The history of race segregation began with the arrival of European colonialists and the establishment of the Cape Colony in 1652 (Clark and Worger 2004:1). The Apartheid regime built upon a lot of laws and legislation from British and Afrikaaners rule before 1948.

Different racial legislation existed before 1910 when the British manifested their power in today's South Africa, but the number and the dimension increased after 1910. A lot of effort was put in to regulate the African population in the country. The Natives Land Act of 1913 allocated 87% of the land to whites. The 1923 Urban Areas Act created legal tools to regulate African's freedom to move around in designated European areas. One also had legislation that gave white workers the upper hand in the labour market. Mines and Work Act of 1911 restricted skilled jobs in mining and railways to whites (Clark & Worger 2004:IV). These are just some of the racial legislation before the era of Apartheid.

During the colonial and Apartheid period, whites were systematically advantaged compared to the rest of the country's other racial groups; "Key to all legislation was the fact that people resident within South Africa would enjoy different rights and privileges based on their race" (Clark & Worger 2004:45). One of the first pieces of legislation passed by the new nationalist government was the Population Registration Act (No. 30) of 1950. This established

mechanisms to determine and register the race of all South Africans. This Act provided the basis for all future Apartheid legislation⁷.

The Group Areas Act (No. 42) which came the same year (Clark & Worger 2004:48), assigned racial groups to different residential and business sections in urban areas in a system of urban Apartheid. One effect of the law was to exclude people of colour from living in the most developed areas. The most important point is that the idea of white supremacy affected most aspects of daily life in South Africa.

4.2.2 - Apartheid in the economy and labour market

“Modern South Africa was built on the most vicious forms of labour exploitations in the history of capitalism” (Hirsch 2005:26). The accumulation of capital in the economy was to a large degree based on the exploitation of cheap non-white, especially black African, workers. One of Apartheid’s main goals was the elimination of competition between white and people of colour, invariably to the benefit of whites. The labour market was an arena where this kind of competition was highly possible. The principle of reserving better paid jobs for whites was nothing new. The exclusion of blacks had been compounded and aggravated by the introduction in 1924 of the “Civilised Labour Policy” (Welsh 2009:56), that forced national, provincial and local governments to replace black menial workers with poor white ones.

Segregation of the labour market, which was reinforced by the education system, has led to enormous inequality and poverty differences among the South African population. The Bantu Education Act (No. 47) of 1953 legalised several segregation aspects and education became racially organized as a consequence of this. This put an end to the missionary education offered by different Christian organizations, and the education of the so-called “black Englishmen” (Clark & Worger 2004:51). Not only was education racially separated, it also created, or increased the huge difference between the possibilities for whites and non-whites to get a good education. People of colour did not have the opportunity to access high quality education at lower levels, and at the higher level the opportunities were extremely limited. Bantu Education was organized in a way to prepare the non-white population of South Africa to meet the demands of the Apartheid economic life (Clark & Worger 2004:51). They were

⁷ All inhabitants of the country were classified as White, Coloureds and Natives, or Black. In 1959, the Indian population was categorized as Asian.

educated to be compliant citizens and productive workers to serve in low- skilled and semi-skilled jobs.

There was no quick fix to correcting the Apartheid legacy. The question was: which role can the state play in this process, and how were assets to be distributed to lift millions out of poverty, improve schools, education, sanitation and nutrition conditions?

4.2.3 - Two nations: race inequality in South Africa today

Thabo Mbeki has claimed that “South Africa is a country of two nations” (Department of International Relations & Cooperation 1998). This was a reference to the British Prime Minister Benjamin Disraeli and his description of the working class conditions under the industrialisation of England. A class so marginalized, but living side by side with the wealthy industrialist. If we choose to look at Two Nations as a country with extreme economic and social differences, South Africa is one such country. According to the Gini Index, South Africa was one of the most unequal societies in the world in 1994 (Central Intelligence Agency 2013).

According to the South African Institute of Race Relations; “White people had a per capita personal income that was 11 times higher than Africans and five times higher than Indian and coloured people in 1917. By 2008 white per capita income was eight times higher than that of Africans, five times higher than that of coloured people, and two times higher than that of Indians” (South African Institute of Race Relations 2011: 1). The non-white population, and again, the blacks in particular, scores low in most socio-economic indexes, such as in education, economics, life expectancy, infant mortality rates, housing, nutrition (Deegan 2001:115-117). Basically everything.

A lot of focus has been directed towards the South African labour market after 1994; “The issue of the wage gap between racial groups, which was part of the heritage of Apartheid, has focused attention on employment practices” (Deegan 2001:125). Former labour minister Tito Mboweni realised that inequalities could not be remedied by simply outlawing discrimination. He proclaimed: “Our constitution has already done that. In order to give practical effect to the country’s Bill of Rights, specific programmes were needed to redress imbalance” (Deegan 2001:125). The most important tool the ANC government had to make this happen was AA.

4.2.4 - What the first democratic elected government inherited in 1994

In the early 1990s, the South African economy had been moving in a downward spiral for over a decade, and it needed to be reformed. This section aims to show that the ANC could not sit back and let the economy run itself. The party was standing at a crossroads, where it ultimately had to choose how to organize its tariffs, subsidies, industrial strategies, the role the state was to play in the economy, and the overall economic strategy for the new democratic South Africa.

When the ANC came to power in 1994, it inherited a contradictory legacy. On the one hand, it had the most developed economy on the African continent; on the other hand, it had major socio-economic problems. The most serious of these were high unemployment rates, poverty among 50% of the population, sharp inequalities in the distribution of income, property and opportunities, and high levels of violence and criminality (Terreblanche 2002:25). South Africa is not the only country in Sub-Saharan Africa, or the rest of the world that faces great social and economic problems. What makes these problems so pressing is that it is mostly non-white, and especially black Africans, who are at the receiving end.

It has also been argued that South Africa also gained a robust economy, modern infrastructure, a strong health and education service, a sound legal system, together with a European and Western initiative, entrepreneurship and ingenuity, perseverance and capital accumulation. All these things played key roles in turning the country into a relatively modern and developed country (Terreblanche 2002:25).

The ship that the ANC took control over in 1994 was a vessel on the edge of destruction. The South African economy had been moving more or less in a downward spiral since the late 1970s. Since the end of WW2, South Africa's accumulation strategy was based on primary product export and inward industrialisation, including Import Substitution Industrialization (ISI), and a suppressive labour system (Marais 2001:100). South Africa's export earnings were largely dependent on raw material export, especially minerals, and the economy was vulnerable to exchange rate fluctuations and fluctuating commodity prices. This was the case with the gold price, which started to drop sharply in 1982 (Marais 2001:101).

Just as the history of South Africa is a history of racial segregation, the history of the South African economy is a history of racial exploitation. "(...) the South African economy was sustained by slavery and serfdom for 250 years, and labour repression and discrimination for another 100, testifies to the highly unequal distribution of power" (Terreblanche 2002:14).

The South African economy was growing fast and steadily in the 1950s and the 1960s, and was experiencing rapid technological innovation, especially in mining and agriculture. This was to change in the 1970s. This decade the global economy was in trouble, and the resistance towards Apartheid, domestically and globally, was increasing. The South African economy was struggling in the 1980s. Almost every indicator was negative. The growth rate, which was averaging 5,5% in the 1960s, was in the 1980s at 1,8%, and fell down to -1,1% in the early 1990s (Marais 2001: 101). Investments and savings were also steadily dropping from the 1980s, and long into the 1990s. The unemployment rate was also rising steadily as a result of economic downturn, and the lack of investments in labour intensive industries. Fixed investments were also low, dropping from 26,5% of GDP in 1983, to below 20% in late 1980s, and 15,7% in 1993 (Marais 2001:101).

Despite all the country's strifes, a tight monetary regime ensured that the inflation rate was relatively low: although the national debt had risen since around 1989, it was not sky high even by Western standards, or compared to middle income countries (Michie & Padayachee 1997:16). In the 1980s, pressure from the international society was increasing, and the financial sanctions, the income dropped, and the fiscal deficits increased rapidly, as the state sought to meet its needs for external defence and internal law and order, as the resistance against Apartheid grew within South African society. The state was also experiencing a chronic balance of payment difficulties. This led the NP government to seek an IMF standby loan worth 1,24 billion Rand in 1982. The conditions for the loan were among other things, to abolish exchange controls and liberalize the economy (Marais 2001:101).

Industrial relations also worsened in the late 1980s. Strikes and stay home actions, as a way to defy the NP government, became an important tool. A particular important factor was the creation of COSATU in 1985, which played an active role in the final days of Apartheid. Strikes and actions escalated from their creation and beyond.

Investments in research and development and technological innovation plummeted. Social infrastructure, such as housing, education, medical services and transport, were neglected, especially among the black population, as the NP government tried to decrease the budget deficits, which again led to a lower standard of living and a greater resistance from marginalized groups in South Africa (Marais 2001:102). Per capita disposable income declined steadily, and by 11% in real terms between 1980 and 1993. The economic situation worsened during the negotiation period (1990-1994), when the ANC and NP lay down many

of the blueprints for the Post-Apartheid South Africa. Between early 1989 and late 1993, the “(...) economy sank into its longest-ever recession, registering negative real economic growth until 1993” (Marais 2001:102).

In other words: the challenges were substantial on many different levels in South Africa. Apartheid’s social and economic legacy demanded that the new government had to reform the country’s economic system, into a system capable of creating growth and lifting millions out of poverty. Ultimately, the ANC had to choose which economic policies it had to implement in the democratic era. It had several choices. It could continue the NP government’s attempt, through the NEM, to liberalize the economy, which would have shaped South Africa into a liberal economic system, or it could have implemented a developmental state approach, and Post-Apartheid South Africa could potentially be more of a Classic or Radical type of social democracy. The RDP has been characterized as potentially one such programme (Hirsch 2005:59).

4.3 - The government programs

The last part of Chapter 4 will review the NEM, which was the government’s economic policy when the ANC took office, RDP and GEAR. The last two, and GEAR in particular, became the most central economic policies in the Post-Apartheid period, and its broader development path. The NEM model, which had clear neoliberal features, was at first rejected by the ANC, and replaced with the RDP in 1994, a potentially more activist- and developmental state oriented policy. The RDP was later replaced by GEAR, the grand pillar of South Africa’s Post-Apartheid developmental trajectory. This chapter will show that by adapting the principles within NEM, when launching the GEAR strategy, South Africa chose a course that shaped its path into a Third Way character.

4.3.1 - Normative Economic Model

After a long period with negative economic development, the NP government tried to reform the South African economy, and introduce a new macroeconomic framework. The reason for mentioning this is to show that the ANC not only was facing the challenge of an economy moving in a downward spiral when it took office, but also a macroeconomic framework with clear neoliberal elements.

In March 1993, the NP government released the NEM, which was a market-oriented approach with economic strategies based on supply-side reform. It was an attempt to add some

coherence to the bedraggled and erratic economic policies pursued by Pretoria (Padayachee 1997:41). The NEM was meant to work as a coherent policy framework. The NEM bore the hallmark of a January 1992 IMF “Occasional Paper”, and it included corporate tax cuts, higher indirect taxation, wage restraints, lower inflation, restricted capital outflows, budget deficit cuts, more spending on research and development and training, boosted manufactures exports, improvements in the social wage, restricting unions position to collective bargain and corporatist relations between labour and business (Marais 2001:130). According to Marais “(...) it advocates a trickle down model with government providing some support to the short term victims of adjustment” (Marais 2001:130).

What was the ANC's reaction to this new macroeconomic framework? Both the ANC and its alliance partner, COSATU, unreservedly slammed the model, and the NEM seemed to end up on the side-lines of the debate of South Africa's economic future. When it took power in 1994, the ANC had the choice between continuing on the same path, or going in another direction. In the first instance, the ANC rejected the NEM, or at least it may look like it when you study the RDP programme, which was launched before the 1994 election. Despite this, the NEM enjoyed a renaissance three years later, when the GEAR programme was launched in 1996. The ANC government's macroeconomic strategy would contain several of its elements (Marais 2001:130).

4.3.2 - The election and the Reconstruction and Development Programme

On the 27th of April 1994, the ANC won the first democratic election in South Africa's history. This gave the ANC the presidency and a role as the most dominant party in the Government of National Unity (GNU), together with the NP and the Inkatha Freedom Party (IFP). With this responsibility came also the responsibility to create and decide South Africa's macroeconomic future. One of the pillars, maybe the most important one, between 1994 and 1996, was the RDP. The RDP manifesto was published just weeks before the election, and was meant to show that there was something in for COSATU's members in supporting the ANC-led alliance. It was the Tripartite alliance's guidelines to overcome the legacy of Apartheid. The RDP was characterized as progressive and “(...) was a blueprint for a productive social democratic heaven” (Hirsch 2005:59). It looked like the ANC rejected NEM, and signaled, through RDP, that it wanted to pursue a set of social democratic goals.

The goals of the RDP were ambitious: “The RDP is an integrated, coherent socio-economic policy framework. It seeks to mobilise all our people and our country's resources toward the

final eradication of Apartheid and the building of a democratic, non-racial and non-sexist future” (ANC 1994:1.1.1). The programme sought to attain the material objectives of economic growth and provide basic needs, while at the same time addressing past injustices. The document was full of rhetoric and phrases like “people-centred development, peace and security, nation-building and democratization” (ANC 1994).

The RDP consisted of five core programmes:

1. Meeting basic needs, such as public works, housing, land reform, transport, nutrition, healthcare and social welfare.
2. Developing human resources through education, training, arts and culture and sports.
3. Building the economy and addressing economic imbalances and poverty by encouraging urban and rural development.
4. Democratizing the state and the society, which meant reforming the various tiers of government, the public service and civil society.
5. Bringing about effective management and financing so that each of the above could be implemented (Lester, Nel & Binns 2000:249).

What kind of role was the South African state to have in the new South African society, according to this programme?⁸ The 4th chapter in the document was about this subject. It stated:“(…) the democratic government must play a leading and enabling role in guiding the economy and the market toward reconstruction and development” (ANC 1994:4.2.3), and warned that policies that purely focused on increasing growth, would accentuate existing inequalities, perpetuate mass poverty and soon stifle economic growth. The ANC government committed itself to restructure the Apartheid legacy in the labour market. Some of the goals were to: “4.2.2.1 - eliminate the poverty, low wages and extreme inequalities in wages”; an to “4.2.2.5 - develop the human resource capacity of all South Africans so the economy achieves high skills *and wages*” (ANC 1994). A more fair and dynamic labour market was to be achieved by increasing the skills of the workforce, through state programmes, and by introducing minimum wages as a tool to eliminate unfair inequality and abolish extreme poverty. Other important policies like AA were also mentioned in the RDP document.

⁸ In all the four cases in Sandbrook et al. (2007), and in all the European social democracies, you find an activist state securing basic and material rights and provide protection against market forces (Sandbrook et al. 2007:68).

One problem with the RDP document was that it was very vague. Topics like capital control and trade-related tariffs were barely mentioned: “(...) instruments of policy such as subsidies, taxes, tariffs, tenders etc. must all be utilised to encourage stakeholder participation in the RDP and promote worker rights, human resource development and job creation” (ANC 1994:4.8.11). The RDP programme committed the ANC government to fiscal prudence, and not to increase the national budget’s total share of the South African economy. Redistribution was to take place through relocation of existing revenues instead of increasing or gathering new taxes. Other budget posts were to milk the military budget, traditionally very big in the Apartheid era⁹ (Hirsch 2005:61). There was no mentioning of increased taxes, or borrowing money to invest in productive or social capital. The largest portions of RDP projects were to be financed by working within the same economic framework, and be financed by better use of the state’s budget and existing recourses.

Budget reallocation did mean something in practice. If we compare 1990/1991 expenditures with those of 1995/1996 it is obvious that that the major losers were defence, economic services and general government services. Defence was cut from 16% to 9% of the budget; general government services was cut from 8 to 7% of the budget; while subsidies that encouraged manufacturers to locate in remote homelands were cut from 2,5% to 1,3% of the budget (Hirsch 2005:73). Most of the relocated funds went to social services. Education went up 1,6 percentage points to 26,2%. Health increased 0,5% to 12,3%. Housing was up 0,5% to 2,3%, and social security went up by 3,5 percent points, to 11,9%. A RDP fund was set up for special projects, starting with 2,5 billion Rand, or 2% of the budget (Hirsch 2005:73).

Compared to the ANC’s Ready to Govern document¹⁰ the RDP document was more aware of the “(...) Inextricable link between redistribution and development, the later term being seen as more than, but dependent on, growth. Redistribution and development were linked in the same modified Keynesian way that was present in the 1990 documents of the ANC” (Hirsch 2005:60). The RDP ran into trouble from the very beginning. The ANC won the election in 1994, and the road was open for an implementation of the RDP goals. However, after the election, numerous problems occurred in implementing the RDP. “The RDP was perhaps too

⁹ After 1966, and the outbreak of the South African Border War (1966-1989), South Africa was in a constant state of war with neighbouring states and insurgents.

¹⁰ Ready to Govern was the ANC’s policy guidelines for a democratic South Africa, and was published in 1992. This document will be reviewed in Chapter 6

broadly formulated, and ended up as a wish list for too many people” (Terreblanche 2002:109). The goals within the RDP document was pretty clear; undo the injustice of Apartheid. But the means and methods for achieving these goals were less clear, and it all had to take place within the same macroeconomic structure as during Apartheid.

In 1994, almost all agricultural land was owned by the white minority. During the era of racial segregation in South Africa, a number of laws and bills were passed to limit the non-white populations’ ability to own property and agricultural land. The RDP suggested a land reform, to fundamentally restructure the ownership in favour of the poor rural black community. A land reform never took place, and by the end of the 1990s, of the 54 000 land claims, only a hundred cases were settled by the end of the century (Marais 2001:187).

The RDP fell into problems from the very beginning. As already mentioned, one of its problems was that it was very vague, and to a very limited degree consisted of concrete solutions to the complex, social and economic, problems it was facing in the early 1990s. It was characterized as the road to a social democratic heaven, but in the end, it became nothing more than a wish list. A wish list without any real means to achieve the goals manifested in the RDP. The closing of the RDP Office, and the introduction of GEAR, would mean the rebirth of many of the ideas from NEM.

4.3.3 - The GEAR Programme

Adopted in June 1996, the GEAR remains as the centrepiece of South Africa’s growth, and consequently, its broader development, path. GEAR was an export-led strategy that focused on anti-inflation policies, fiscal restraint, continued tight monetary policies and wage restraints. GEAR was widely celebrated by the business sector, and praised as a business-friendly policy. The GEAR programme would remove itself from the welfare aims staked out in the RDP document. Even though the RDP was vague and lacked a detailed and comprehensive approach, it was open to the use of subsidies, taxes and tariffs to create jobs. GEAR was a continuation of the NP’s NEM. As previously said, I argue that South Africa after 1994 can be characterized as a Third Way social democracy. GEAR is an important reason for me arriving at this conclusion.

The main objective of GEAR was to make South Africa more business-friendly through several new policies. The GEAR approach linked greater fiscal prudence to the ability to ease a still-tight monetary policy and encourage private, local and foreign, investment (Marais

2011:98). Then Finance Minister, Trevor Manuel, stressed the importance of having a tight monetary policy: “It is evident that in the recent past, the shortcomings of policy coordination has placed an excessive burden on monetary policy as the major instrument to maintain macro balances. This has led to higher real interest rates” (Manuel 1996). Like RDP, GEAR was very ambitious. GEAR promised to increase annual growth by an average of 4,2%, create 1,35 million jobs by the year 2000, boost exports by an average of 8,4% per annum through an array of supply-side measures, and drastically improve social infrastructure. The document also predicted a growth rate of 6% by the year 2000 and the creation of an average of 400 000 jobs annually (Lester et al. 2000:255, Marais 2001:165). Alan Hirsch (2005) sums up GEAR in the following way:

- A faster fiscal deficit reduction programme to contain debt service obligation, counter inflation and free resources for investment.
- A renewed focus on budget reform to strengthen the redistributive thrust of expenditure.
- A reduction in tariffs to contain input prices and facilitate industrial restructuring, compensating partly for the exchange rate depreciation.
- A commitment to moderate wage demands, supported by an appropriately structured flexibility within the collective bargaining system.
- An exchange rate policy to keep the real effective rate stable as a competitive level.
- A consistent monetary policy to prevent a resurgence of inflation.
- A further step in the gradual relaxation of exchange controls.
- Speeding up the restructuring of state assets (including privatization).
- Tax incentives to stimulate new investments in competitive and labour absorbing projects.
- An expansionary infrastructure programme to address deficiencies and backlogs.
- A strengthened levy system to fund (industrial) training on a scale commensurate with needs.

(Hirsch 2005:99)

The GEAR also put a lot of focus on driving the budget deficit down to 3% of the GDP by the year 2000. This was pursued to reduce the total public debt, which was at 56% of GDP in the year GEAR was introduced. Reducing the budget deficit, and a continued tight monetary policy, were aimed to demonstrate a determination to get the central macroeconomic variables under control (Lundahl 1999:103).

The tax revenues share of GDP was to stay at the same level, and not exceed a ceiling of 25% of South Africa's GDP. This was later increased to 26,5% (Marais 2001:164). GEAR's restructuring of taxes was manifestly non-progressive. Corporate taxes were to be reduced (Marais 2001:169). In 1976, the tax revenue was 27%; in 1990 it was 18%; and in 1999 it was 11%. The personal taxes share soared. In 1976 it was 25% of the budget, in 1990 30%, and in 1999 it was 42% (Marais 2001:188). Trevor Manuel legitimized the policy by saying that South African savings were not sufficient, and that the state needed to create an investment-friendly environment. In 1996, 37% of tax revenues was derived from indirect taxation, like Value Added Taxes (VAT) and so called 'sin taxes' (alcohol and tobacco). GEAR did not emphasise taxation on luxury consumption and unproductive land (Marais 2001:168).

Since the tax revenues share of GDP was to stay the same according to GEAR, there was little or no talk about increasing investment in social infrastructure. The focus was on using existing means in a more efficient way. Instead of intensify the states' effort in housing and social infrastructure, "(...) the framework for financing municipal infrastructure has been carefully designed to mobilize an optimal mix of government grants, development finance and private investment." (Manuel 1996). In other words, GEAR did not aim to increase the disposable means to reduce inequality, but it planned to reduce poverty in a Third Way manner.

The GEAR strategy circled around the stimulation of private investment. One way to do this was to remove the exchange controls, and the exchange rate should be kept at a level that could keep South African goods competitive abroad. When GEAR came in to being, exchange controls went out. The abolishment of national exchange controls aimed to avoid excessive disruptions to the foreign exchange market. The GEAR resisted the 'Big Bang' approach, but called for a gradual, but complete removal of financial controls. With this, the state also gave away their possibility to regulate investment in the economy. Every disincentive to stop FDI was to be removed (Marais 2001:169, Manuel 1996, Lundahl 1999:103). GEAR insisted on a continuation of the lowering of external tariffs, which it also did by signing the GATTs Uruguay Round in 1994, and subsidies for its own economy. GEAR's other main feature was to decrease gold exports relative to the share of South Africa's exports, and increase manufactured exports by 23% within four years (Lester et al. 2000:255, Marais 2001:168).

Trevor Manuel's justification of the lowering of trade tariffs and trade barriers was quite strait forward: "The steady integration into the global economy has led to a rising level of competitiveness within the economy. Our new strategy aims at accelerating our competitiveness and "(...) Our industrial strategy aims at encouraging investment" (Marais 2001:165). The lowering of tariffs was legitimized by assuming that this would increase the competitiveness and the efficiency of the countries manufactures, which again would lead to economic growth and employment. Throughout its history, South Africa has had a high degree of state-owned enterprises, assets and companies. GEAR emphasized privatization of state-owned businesses.

The following companies, either fully or partially, or through the awarding of some kind of contract, were privatized: the South African Broadcast Corporation (SABC), Telkom, Sun Air, Airports Company South Africa, South African Airways, Denel, Dolphine Coast, Alexcor, the South African Post Office, and Aventura (Lesufi 2005:30). Nevertheless, very few of these companies have been completely privatized, and the majority have only gone through minor reforms. By year 2000, 8 billion Rand was been generated from the government's privatization process.

Trever Manuel stated, during the launch of GEAR, that "Job creation is the country's basic challenge" (Manuel 1996). He highlighted the importance of increasing the training of workers across all sectors. One other aspect was to work for flexibility in the labour market, to more easily absorb a higher number of workers and to employ more people in the economy. Another important part of GEAR was that the state committed itself to work for wage moderation to make South Africa more attractive for the business sector (Marais 2001:170).

One big difference between RDP and GEAR was the concept of distribution or redistribution, and a very important reason for claiming that South Africa's choices as a Third Way of social democracy. In the RDP, the goal was to create redistribution through relocation of existing revenues in the national budget.

The very nature of GEAR is of a Third Way logic. Redistribution within GEAR was only promoted as a product of growth, and not an integral part of the overall strategy. As previously reviewed in the theory chapter, one of the distinct features of a Third Way social democracy is that the conception of equity is not based on redistribution of assets, but a more limited poverty reduction, and the market is the main means to improve living conditions among the people. GEAR was built on this idea. The state was going to attract investments by

creating a business-friendly environment, lowering tariffs, liberalizing the financial sector and cutting taxes. In the next round, this was going to increase investment, jobs and growth. A growth that was going to benefit the poorest part of the population, through increased employment. The state had a very limited role to play, and as a result of lowered taxes, it lacked the capabilities to build a system with universal services, pensions and a comprehensive welfare state, which is typical for a Radical social democratic regime (table 1). GEAR became the grand pillar in South Africa's broader developmental path, and a natural part of this policy was that the welfare services and the safety net would "only" try to reduce poverty and target the truly needy. As shown in Chapter 3, the Post-Apartheid state has only been able to some degree to reduce poverty, and has not managed, according to the Gini-index, to reduce inequality after the fall of Apartheid. The fact that GEAR, and its policies, have been South Africa's developmental path strengthens the argument that if South Africa is to be classified as a social democracy, it is best classified as a Third Way social democracy.

4.4 - GEAR: what has been achieved?

The GEAR document promised high economic growth and substantial job creation (see table 2). GEAR has failed to deliver the forecasted growth rate, and also failed to realize the projected growth in manufacturing output. The performance in terms of employment creation has led economic commentators, both promotional and critical, to speak of an era of jobless growth (Lesufi 2005:27). This means that no matter how slowly or quickly the economic growth has been, the economic growth has been without any job creation. As seen in table 2, the predictions in GEAR between 1996 and 2000 were terribly wrong. Not only has the growth been slow, but the growth has actually been lower than the population growth in South Africa (Lesufi 2005:27).

Table 2: GEAR, prediction versus actual performance

Annual growth rates	1996	1997	1998	1999
Real GDP:				
GEAR prediction	3.5	2.9	3.8	4.9
Actual performance	4.2	2.5	0.6	1.2
Private investment:				
GEAR prediction	9.3	9.1	9.3	13.9
Actual performance	6.1	4.7	-2.9	-4.4
Real wage growth (private):				
GEAR prediction	-0.5	1.0	1.0	1.0
Actual performance	1.7	2.3	8.6	3.0
Employment (non-agricultural):				
GEAR prediction	1.3	3.0	2.7	3.5

Actual performance	-0.7	-1.7	-3.7	-3.2
Conventional deficit/GDP:				
GEAR prediction	-5.1	-4.0	-3.5	-3.0
Actual performance	-4.9	-4.6	-3.5	-2.6

(Nattrass & Seekings 2001:61).

Contrary to the strategy's forecast of creating 400 000 jobs yearly between 1996 and 2000; the job losses have been massive. Nearly 500 000 jobs were lost in the period. Many of these were in the public sector, where 170 000 jobs were cut between 1996 and 2000 (Lesufi 2005:28). The sustained job losses and the economy's failure to create new jobs, has led to a continuous high level of unemployment in Post-Apartheid South Africa. From Table 2 we also can observe that the growth in wages have been significant. A explanation for this is the strength of South Africa's labour movement.

The GEAR strategy did put a lot of emphasis on FDI. Between 1996 and 1998, the flow of FDI doubled in South Africa, making the country the largest recipients of foreign capital on the African continent. This is just one aspect. The FDI was offset by South African companies expanding their activities in other countries. 80% of foreign capital had entered the country in the form of portfolio investments (Lesufi 2005:30). The capital flowing inside South Africa targeted privatization ventures, takeovers, merger and acquisitions. To a very limited degree did the capital increase South Africa's manufacturing capability and the building of plants and factories. FDI inflows have also been concentrated in capital-intensive industries, and not resulted in substantial employment.

To secure a tight fiscal policy, and a decrease in the state's debt, social spending between 1997 and 2000 declined. In this period, spending on housing declined by 16,2%, water by 7,5 %, education by 1,3 % and welfare by 3%. The GEAR goal of a 3% deficit (of GDP) by 2000 was reached. By 2000 the deficit was 2,4% of GDP (Lesufi 2005:29).

This chapter has shown that the legacy from the era of racial segregation and Apartheid has created a heritage where wealth and poverty is divided across racial and gender lines. There was no quick fix to solve South Africa's social problems, and big efforts had to be made. On the other hand the ANC also inherited the most modern and developed economy on the African continent, despite the fact that it had been on a rough path since the late 1970, and a new economic framework and growth path was needed.

I hope that Chapter 4 has showed the nature of the decisions that the ANC was facing when it took power in 1994. It was at a crossroads: should it continue the NP's NEM policy, which consisted of several neoliberal elements, or should it pursue a more progressive macroeconomic alternative? In 1994, it looked like the ANC chose to distance itself from NEM when it adopted the RDP, which was described as a blueprint for a social democratic heaven. The RDP was short lived, and in reality, it became nothing more than a vague wish list without clear means to achieve its ambitious goals. With the abolishment of the RDP in 1996, and the implementation of GEAR, the ANC used many of the proposals in NEM, to create what they called a business-friendly environment. With the continuation of NEM, and the ideal of a very limited state, the idea of an activist social democratic state vanished. In my opinion, this strengthens the notion of South Africa being a Third Way social democracy.

Chapter 5 – Advocates for the liberalization path

5.1 - Introduction

Thus far, I showed that South Africa's Post-Apartheid development shares several similarities with what Sandbrook et al.'s (2007) classify as a Third Way social democracy. The main reason for this is their inability to decrease the inequality, and build a comprehensive welfare state. The other main feature is the economic policy, where the state plays a very limited role, unlike the cases that fit under the Radical and Classic types of social democracy. What remains now is to show why the Post-Apartheid governing party, the ANC, chose to pursue a neoliberal economic policy. This is the main purpose of this chapter.

Chapter 5 will examine the two major advocates pushing for the liberalization of the South African economy with the fall of Apartheid: the South African corporate sector and the international finance institutions. The point of this chapter is to highlight how these two actors tried to affect, and affected, the ANC's social and economic policies from its unbanning in 1990 until the making of the GEAR policy in 1996.

In the first section, I focus on the South African corporate sector. One important point I wish to highlight is the relative strength of the South African corporate sector, and how actors like the AAC and MEC influenced the ANC through the launch of different economic scenarios for the Post-Apartheid economy, by way of fact finding missions, presentations, influence through media and direct communications with Nelson Mandela and the leadership within the ANC. I also want to show how their primary goals were to create a new growth path and an accumulation strategy. Another objective was to convince the ANC, and in particular the emerging black trade union, the COSATU, to abandon their socialist objectives.

The international finance institutions (the IMF, the WTO and the World Bank) were also highly active after they realised NP's rule was coming to an end. In the section about the role of the international finance institutions, the focus is on different papers, recommendations and documents on the issue of South Africa's social and economic development after Apartheid. I choose to look at a wide range of documents and deals signed between the ANC and the international finance institutions. My conclusion is that the international finance institutions were very influential, especially the IMF, and to some degree the GATT. Especially important was the agreement signed between the IMF and TEC, where the ANC was a member, to

borrow 850 million US Dollars. With this loan, the ANC committed itself to liberalize the economy, and writers such as Terreblanche (2012) claim that there is a clear link between the statement that came with the loan, and GEAR.

5.2 - The corporate sector began to understand the need for change

South Africa has long had a unique, in an African context, strong corporate sector and business organizations. South Africa's business sector was also struggling during the last decade of Apartheid. The economy was moving in a downward spiral because of the international boycott of South African products and commodities, and domestic resistance towards the racial separation. It was also impossible for South African companies to do business outside the country. A system that for a long time had been very beneficial for the corporate sector was now working against their interests. Organizations like SACOB, MEC and companies like AAC began to understand that change was inevitable, and necessary. When the South African government declared a general state of emergency in June 1986, and the American Congress enacted the Comprehensive Anti-Apartheid Act in October 1986, the business sector realized it had to act. They realized that the crisis in the economy affected their profits and that a political settlement with the democratic movement was necessary (Terreblanche 2012:59).

This new political situation became a big challenge for the corporate sector. One of the goals, if not the most important, for the business sector was to secure a political settlement that safeguarded the accumulation of capital in a democratic South Africa. In this new landscape, a political transition would mean the involvement of the ANC. Terreblanche identifies several challenges for the business sector in 1986:

“(...) first, how to convince the ANC to abandon its socialist orientation; second, how to prevent the ANC from becoming a populist government inclined towards massive redistribution spending; third, how to ensure that capitalist corporations would remain in a dominant position vis-a-vis the new political authority in the new political-economic system; forth, how to convince the NP (and especially the conservative wing of the Afrikaners) about the inevitability of a political settlement with the ANC; and finally how to interact with the black and militant trade union movement after COSATU was launched in 1985” (Terreblanche 2012:59).

These challenges were real. Organized capital and business began, to a larger degree than before, to affect the outcome of the inevitable transition in South Africa.

The democratic movement and the corporate sector in South Africa had a very different starting point when it began tentative and informal discussions began in the late 1980s. The democratic movement, dominated by the ANC and its allies, was very sympathetic towards state intervention, socialism, and the ANC's long-time ally—the SACP—had close ideological ties with the communist Soviet Union. The democratic movement had, as a result of SACP's close affiliation with the Soviet Union, favoured a socialist arrangement of the economy, with the nationalization of banks, mines and redistribution of agricultural land and wealth on a general basis. The corporate sector, on the other hand, was very hostile towards socialism, communism, state intervention and redistribution (Terreblanche 2002:51). When the talks began in the 1980s, the ideological distance could hardly have been greater.

Who were the actors in this process? SACOB has already been mentioned. Other important actors, which were associated with business organisations, were the Urban Foundation (UF), an organization set up by Harry Oppenheimer, dedicated to improve housing for the black urban population, the Free Market Foundation (FMF), Nedcore, Sanlam, Centre for Development and Enterprise (CDE) and the South African Foundation (SAF). The most important actors, according to Terreblanche (2001; 2012), were the AAC and MEC. These two are somewhat interconnected. The AAC was, and is still today, a big international mineral company, while the MEC represented the interests of the strong mineral and energy sector in South Africa.

5.3 - The corporate scenarios

Previously, I have emphasised the strength of the South African corporate sector. The business sector could use its muscle when bargaining with the ANC: “The corporate sector's enormous bargaining power and its capacity to generate propaganda – not only in the narrow economic arena, but also the broader political arena – cannot be overemphasised” (Terreblanche 2002:55). Terreblanche also claims that the corporate sector has been able to legitimize its powers, privileges and alleged functionality in promoting the interests of all South Africans. This, of course, is not limited to South Africa: it is a trademark in all capitalist-orientated countries, but has always been extremely strong in South Africa.

We can distinguish between two main categories of ideologies or realities advocated by South Africa's corporate sector to legitimise itself. The first had to do with the alleged capacity of the liberal, free market, capitalist system to promote the interest of the total population,

irrespective of whether or not the economic system in South Africa can credibly be described as such. The second is the contention that a high economic growth rate in South Africa will, despite deeply institutionalised inequalities, automatically “trickle down” to the poor (Terreblanche 2002:56). It is not controversial to say that the trickle-down approach has been widely accepted in South Africa’s Post-Apartheid economic policies, especially with the GEAR programme.

Terreblanche describes the South African corporate sector as “(...) an oasis in the African dessert” (Terreblanche 2002:55), in terms of its strength and size. One way it used its power, was in influencing the making of South Africa’s new macroeconomic system, by launching several economic scenarios. SACOB formulated an economic strategy that would be business friendly in a future multiracial South Africa. In September 1990 SACOB published its *Economic Options for South Africa* (South African Chamber of Business 1994), which defended the alleged benefits of a free market economy. It claimed that free enterprises were the remedy to create growth and reduce poverty. It also tried to distance itself from the Apartheid system, and claimed that the economic stagnation since the end of the 1970s, were a not a result of a failure in the free enterprise system, but an effect of the inflexibility of the Apartheid system. In defending this point of view, SACOB augmented that South Africa had never had a free market system, but one of racial capitalism, that was built on repressive labour patterns and unequal power until the 1970s (Terreblanche 2002:80). This assumption stands in a stark contrast to the SACP and ANC theory, of the Apartheid system as Colonialism of a special type, where capitalism and racism were so interconnected that it was impossible to remove one without removing the other.

From the late 1980s and during the transition period, several businesses, think tanks and research groups connected to the corporate sector published a number of scenarios dealing with the future of the South African economy. The purpose was to create an overarching social contract among the NP government, big business, organized labour, civil society and the ANC. Patrick Bond summarize it in the following way; “The scenario exercise reflected the desire of the masters and carefully hand-picked participants to come up with a deal—rather than with good analysis. As a result, the universal characteristic of scenario planning was a failure to grapple with problems which are very hard indeed to solve. Instead, the cliché-ridden scenarios became increasingly stylised and niche-marketed” (Bond 2005:57).

Nedcor, one of South Africa's biggest banks, made its first big appearance in the scenario-making arena in 1990, and launched the "Prospects for a Successful Transition" document. Between January 1991 and June 1992 over 45 000 handpicked South Africans, invariably from the decision making levels of society, and the ANC, attended a presentation on the Prospects (Taylor & Williams 2000:28). The insurance conglomerate, Sanlam, had a similar offer, its "Investment Scenario", followed by The Mont Fleur Scenarios, and South Africa Foundations "Growth for All" (Taylor & Williams 2000:28). In all these scenarios a lot of emphasis was dedicated to the fragility of the South African economy after two decades of stagflation, and the dangers of "macroeconomic populism". In the final years of NP rule there was what many economist would call bad fiscal politics. de Klerk's government had raised the level of public debt dramatically. The corporate sector sought a healthy fiscal policy. The rise of public debt did not only frighten the corporate sector, but it also strengthened its arguments against macroeconomic populism (Terreblanche 2002:82-82), comprehensive redistribution, or poverty alleviation programmes.

Is it correct to say that the corporate sector was in unison in their scenarios for a new South Africa? Terreblanche claims that this is not the case: "It should be acknowledged that, in the early 1990s, all the factions in the corporate sector did not agree on all policy issues. The entire sector agreed on the merits of a free market economy; the need to roll back the state, privatize, and restrict taxes; and a desirability of the neo-liberal approach. However, different factions demanded different adjustments that best favoured them. The large financial and mining firms (including the AAC) were keen on wide-ranging liberalisation that would allow them to globalize via joint ventures" (Terreblanche 2002:81-82). The manufacturing sector was more ambivalent. Companies that were confident of their competitive potential favoured trade liberalization, while their more vulnerable counterparts were less enthusiastic, and believed that it needed state regulation to protect their industries (Marais 2001:128).

5.4 - The corporate sector seeks negotiation with the ANC and the democratic movement

It is very hard to give a full and complete picture on how influential the corporate sector was in negotiations with the democratic movement, but the literature can help us see how the corporate sector tried to influence the democratic movement in general, and the ANC in particular. Sampie Terreblanche, claims in two of his books (2002; 2012) that one of the major reasons for South Africa's neoliberal trajectory after the end of Apartheid is a result of

an elite compromise between the South African corporate sector, international finance institutions and the ANC. The most important and influential actors in the South African corporate sector, the AAC (Terreblanche 2002) and the MEC, were instrumental in creating this compromise. “This strong pressure from the corporate sector was orchestrated by the mineral energy complex” (Terreblanche 2012:12). The MEC has been very successful in promoting its interest among the political elite, and had close ties with the English and Afrikaner rulers before and during the Apartheid era. Harry Oppenheimer¹¹, who was the chairman of the AAC for a quarter of a century, was very important in this regard. The MEC’s very influential role continued throughout the Apartheid era, and into the transitional period.

After Nelson Mandela was released in 1990, he and Harry Oppenheimer met regularly for lunch or dinner. From the early 1990s, MEC met regularly with the leadership core of the ANC at Little Brenthurst, Oppenheimer’s estate (Terreblanche 2012:63). When other corporate leaders joined the secret negotiations on the future of the economic policy of South Africa, the meetings shifted to the Development Bank of Southern Africa. The details are not important, but it is important that the elite within ANC and the corporate sector meet on a regular basis.

It is practically impossible to know what was said in meetings between the ANC and the corporate sector, and especially the AAC and MEC, but writers like Terreblanche (2012) claim that the corporate sector was extremely good to “(...) exaggerate (...) its own vulnerability, and an overblown obsession with the dangers of macroeconomic populism. Given the corporate sectors extraordinary capacity for ideological propaganda and mythmaking, it is indeed not surprising that it ‘oversold’ to the democratic movement its own (alleged) vulnerability, its aversion to taxation, and the dangers of increasing government spending” (Terreblanche 2002:82). Terreblanche (2002; 2012) actually go so far as to say that a compromise was forged between the corporate sector, the NP and the ANC. “During these meetings an elite compromise gradually emerged between the WTA (Under the leadership of MEC), a leadership core of the ANC, and American and British pressure groups. The secret negotiations reached a climax in November 1993” (Terreblanche 2012:63; 2002:106). In November of 1993, South Africa was governed by the Transitional Executive Council (TEC),

¹¹ In the 1950s, Oppenheimer was working on behalf of the MEC in promoting the Native Laws Amendment Act (1952), which would lead to a decline in urban wages for Africans (Terreblanche 2012:51-52).

which consisted of member from both the NP and the ANC; the TEC signed a document called Statement on Economic Policies, where the two parties committed themselves to follow a certain economic policy. This document was signed as part of a bilateral agreement between the IMF and the South African government, for a US\$ 850 million loan for drought relief. The IMF's role in influencing the ANC and South Africa's economic trajectory is something I will come back to later in this chapter, in the section about the role of the international finance institutions.

Was this settlement that influential in determining South Africa's broader developmental path? Some claim it was. "If the statement on economic policies is read carefully, it becomes quite clear that it was the GEAR policy on 1996 in embryo form" (Terreblanche 2012:64). The South African corporate sector was without doubt very influential during the transition period. It used its strength to convince the ANC to abandon its socialist, redistributive goals and what they called macroeconomic populism. The corporate sector was able to achieve their long lasting goal of creating a new growth path. According to writers such as Terreblanche, the South African corporate sector, led by the AAC and the MEC, was able to create an elite compromise, in which the ANC committed itself to pursue a list of neoliberal reforms, manifested in "The letter of intent", which came with the IMF loan in 1993. In other words, the South African corporate sector was very influential in pushing the economic, and as a result, the social trajectory in South Africa in a neoliberal direction, which reinforced South Africa as a Third Way social democracy.

5.5 - International pressure groups

There can be little doubt that the secret negotiations, between the MEC and a leadership core of the ANC, were partly responsible for the ideological turn of the ANC in the early 1990s. It was, however, not the influence of the MEC alone. There was also pressure and persuasion from western governments and from international institutions such as the Bretton Woods Institutions, and global corporations.

5.5.1 - The role of the World Bank

The World Bank is an international financial institution that provides loans to developing countries for capital programs. South Africa was one of the bank's founders in 1944. The first World Bank mission visited South Africa in 1949/1950 in order to undertake a survey of the economy and of investment opportunities in the country. Over the period between 1946 to

June 1967, South Africa received in total eleven loans, worth US\$ 241.8 million (Padayachee 1997:29). After 1967, South Africa did not receive any loans from the World Bank, and by 1976 South Africa had repaid or discharged its entire loan obligation to the World Bank.

The World Bank made its first substantial appearance in South Africa for the first time in over twenty year in 1990 (Bond 2005:160). The banks re-engagement with South Africa resumed, after the dramatic political development in February the same year (Padayachee 1997:29). The first World Bank loan, worth 340 million Rand, was granted to a democratic South Africa in 1997. The purpose of the loan was to make small and medium sized enterprises more globally competitive (Bond 2005:160). Even though the loan was of a considerable size, the World Bank influenced South Africa's development mostly by its policy advice, and not by demanding SAP as a condition for receiving the loan (Bond 2005:69). The World Bank decided to concentrate its resources in South Africa of four areas: macroeconomic policy, employment prospects and their related implications, industrial policy with a special emphasis on employment generations, and public expenditure alternatives (Padayachee 1997:32).

In 1990, it had open channels to the ANC and the country's trade unions. The World Bank stated that this was the first time in their history that the bank was talking to the opposition in a country (Marais 2011: 102). The Bank's "*Reducing Poverty in South Africa: Options for Equitable and Sustainable Growth*" (Ahmed, Hansen, Fallon, Levy and Scarbrough, 1994), became, according to Marais: "(...) the public component of an intensive process of lobbying and trust building with the ANC and other popular organisations" (Marais 2011:102). In the same report, there were proposals for land reform. Previous legislation in the pre-Apartheid and Apartheid era had dedicated the overwhelming majority of the land to the white population. The report included proposals for land reform, and defined a goal of redistributing one third of the agricultural land. Even though land reform was never implemented in South Africa, its "Land distribution policy was definitely shaped by the counsel of World Bank and other technocrats (who persuaded government to opt for a market-driven voucher/grant approach) and by the decision to afford constitutional protection of property rights" (Marais 2001:191). The real impact from the World Bank in Post-Apartheid South Africa was therefore witnessed not through lending, but in its policy advice on land reform, housing, healthcare, public works, child-welfare finance, infrastructure, industrial development and macroeconomic policy (Bond 2001:69).

The Bank created several papers on South Africa, with different recommendations on which policies to pursue. What was their attitude on the role of the state in the future South African economy? The World Bank warned against what Padayachee characterised as: “(...) an expansionary role for the state, especially in regard to fiscal instruments to stimulate demand, an outward oriented strategy of development, and a preference for maintaining an appropriately depreciated real exchange rate in order to invest and the expansion of non-gold exports” (Padayachee 1997:32). It also stressed the importance of maintaining a good fiscal policy, hence warning about the increased size of fiscal deficit, this to secure macroeconomic stability (Ahmed 1994).

The World Bank’s recommendations were not purely of a “market-orthodox” character. The World Bank stated that: “South Africa’s unequal legacy cannot be reversed solely by market reforms because those disenfranchised by Apartheid will be able to obtain the recourses necessary to exploit market opportunities” (Ahmed 1994:16). The World Bank was ambivalent in its recommendations, and suggested free market policies, but also policies that can be describes as “*potentially progressive, proposals*” (Padayachee 1997:33). The fact that some of the recommendations from international finance institutions, in this case the World Bank, have been labelled progressive, differs from my own expectation that the recommendations from international finance institutions were of a pure neoliberal character.

5.5.2 - The role of the IMF

Already before 1990, the IMF was involved in South Africa’s economic development. During the late 1970s and early 1980s, in the wake of the Soweto Uprising, many countries and international actors ceased to deal with the Apartheid government. This was not the case with the IMF. The IMF lent two billion dollars to the government after the Soweto uprising. It was only in 1983, when the US Congress forbade further IMF loans to the Apartheid regime that the financial support ceased (Bond 2001:68). This did not mean that the IMF ceased its interaction with the South African government. The IMF continued to send personnel to help the South African state adopt a more neoliberal economic policy: “The IMF ceased lending, but during the 1980s sent in advisory teams each year to help the Apartheid government switch to neoliberal economic policies” (Bond 2005:159).

After de Klerk’s 1989 speech in parliament, when he called for multiracial elections, the IMF, just like the World Bank, realised that things were about to happen; it was swift to try and affect the outcome of the notified transformation in South Africa. In particular, the IMF was

concerned about the debate if South Africa should pursue growth before distribution or distribution before growth (Kahn 2000:2). The last prescription was popular among big actors on the left, like the SACP, the ANC and COSATU. In 1992, the IMF launched the Occasional Paper called *Economic Policies for a New South Africa* (Lachman and Bercuson, 1992) was a paper agitating against distribution before growth.

The first major IMF report on South Africa focused on the growth policies needed in the new South Africa, and issues like the poverty profile, sources of saving, the composition of government expenditure, the implications of increase in real wages, and the scope for a more liberal trade and payment system of an outward-looking strategy (Padayachee 1997:30). It highlighted the importance of a limited state, good fiscal policy and liberalized and internationalized trade and financial policies. The report was well received by different sections of business, and, according to Padayachee (1997:31), “(...) said all the right things”. Padayachee (1997) concluded that the basic message emerging from the IMF recommendations can be summed up as growth first, and redistribution later (Padayachee 1997:31). Their logic, as I understand it, is that growth will create a trickle-down effect, which in the next instance will increase the state’s taxes, which again will allow greater social spending.

In 1993, the TEC and IMF signed a deal to borrow US\$ 850 million from the Fund. This agreement was an IMF Compensatory and Contingency Financing Facility. The money was for drought relief, which came as a result of the decline in agricultural exports and the increase in import caused by the prolonged drought, although the drought had ended 18 months earlier (Bond 2001:68). The conditions for the loan were secret, but were leaked to the *Business Day* by the ANC in March 1994, to establish confidence in the financial markets, and to show that the election shortly after would represent continuity in politics (Kahn 2000:4, Bond 2001:68). “The Letter of Intent” (Padayachee 1997:32) which accompanied the loans from the IMF, did point out the dangers of an increase in the real wages in the private and the public sector, and stressed the control of inflation, and repeatedly espoused the virtues of market forces over regulatory interventions in the economy. Unlike many other countries in the political South, South Africa was never a subject of the IMF’s SAP, so criticisms have been levelled against the TEC government and the ANC for submitting itself to an IMF-type program voluntarily (Kahn 2000:4). Conditions for the loan were not well received among the trade unions, especially not in COSATU, because the agreement committed the government to work for wage restraint.

The loans bound Pretoria to the following:

1. Cut government deficit spending from 6,8% of GDP, to 6% of GDP in 1994.
2. Expenditure containment rather than tax increase.
3. Contain the civil service bill.
4. A continuation of the tight monetary policies of the past 4-5 years.
5. Monetary targeting: policies to couple wage restraint and training to foster investment and promote employment.
6. Maintenance of Financial Rand mechanism without the exchange control mechanisms.
7. Simplification and rationalization of the tariff system, and the phasing out of import licensing and non-tariff barriers.

(Padayachee 1997:32, Bond 2001:68)

The IMF also pushed for the abolishment of exchange controls (Marais 2001:116). The global trend, in the time of the South African transition, was running against capital controls. The IMF, and others, saw the hindrance of capital as a major obstacle to foreign investment. South Africa accepted the terms set by the IMF. However, one question remained, should these controls be abolished rapidly, or gradually? The IMF argued for “shock therapy” (Marais 2001:116). As a first step, the Financial Rand¹² was abolished in 1995, and the year after the ANC government declared that all exchange controls were to be dismantled as soon as circumstances were favourable. By 1999, 75% of the controls had been removed (Marais 2001:116).

Different scholars have observed the link between the agreement signed by the TEC and the IMF, and the GEAR policy of 1996 (Terreblanche 2012:64). This document committed the TEC, and later the ANC government, to the ideologies of neoliberalism and market fundamentalism. If this is the case, it can be said that the IMF, directly or indirectly, was able to exercise a great deal of influence in forming the trajectory of the South African economy.

The influence made by the IMF was not only done by producing papers and signing deals with the South African government. ANC top officials were sent to the IMF and the WTO headquarters to receive training. Important political characters in Post-Apartheid South Africa like Trevor Manuel, Minister of Finance (1996-2006) and Tito Mboweni, Governor of the South African Reserve Bank (1999-2009), where both trained by the IMF and WTO. ANC

¹² The system of Financial Rand was a mechanism to control capital flight out of South Africa.

officials were lead to believe that adopting neoliberal policies was common sense (Narsiah 2002:4).

Like the South African corporate sector, the international finance institutions were not always unanimous in their recommendations on the development of the South African social and economic system. As mentioned earlier, commentators have claimed that the World Bank was not as “market-orthodox” as the IMF. Robert Urquart’s comment, after studying the World Bank’s document, is that; “the (Bank’s) South African documents attempt to present both Keynesian and Monetarist interventions. But this is not the case: on the whole the South African documents reflect 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 document away from a concern with trying to reconcile poverty alleviation with growth and more with a concern for growth” (In Padayachee 1997:34).

My personal impression is that the IMF was pushing more for wage restraint than the World Bank. The bank claimed that between 200 000 and 400 000 fewer jobs were created in the 1980s as a result of African workers’ wage increase. While arguing for industrial relations, it also counselled that workers should not bear the brunt of reduction in real wages (Padayachee 1997:33, Marais 2011:102). This was not a policy the IMF could endorse. The South African Economy in the final days of Apartheid was very isolated. In the transition between 1990 and 1994, the “internationalizing” trend was the paramount pressure, and, politically, was brought to bear by the IMF and the World Bank (Marais 2001:110).

Even though the World Bank and IMF were not unanimous in their advice, they both promoted, with some exceptions from the World Bank, what can be considered neoliberal systems and solutions to overcome the unjust social and economic legacy of Apartheid.

5.5.3 - The role of GATT

GATT, now the WTO, was founded after WW2, as a multilateral agreement regulating international trade. Marais (2001:110) claims that GATT was less influential in affecting the South African trajectory than its sister institutions, the World Bank and IMF. Despite the fact that South Africa suffered from a two-century long boycott because of the Apartheid system, South Africa has been integrated in international world trade. South Africa would also make

adjustments to its economy regarding its trade policy. GATT was primarily able to affect South Africa mainly by making the ANC government sign the 1994 Uruguay Round. The government committed itself to the following:

1. 12 800 industrial tariffs would be rationalized into less than 1000.
2. Industrial tariffs would be cut by an average of 33% by 1999 with maximum levels for consumer goods set at 30%, for capital goods at 15% and for raw materials at 5%.
3. Agricultural tariffs would be cut by an average of 36% over a period of ten years.
4. Textile tariffs would be scaled down over 12 years to a maximum of 25-45%, depending on the product.
5. Local content measures would be phased out in the automobile industry.
6. The General Export Incentive Scheme (GEIS) export subsidies would end by 1997.

GEIS was a policy implemented during Apartheid’s later period to stimulate the export industry, which was struggling as result of the trade boycott of South Africa. By removing GEIS by the end of 1997, they also lowered tariffs to zero within the telecommunication sector, which was far below the 20 % level required by GATT.

The IMF, World Bank and GATT were not always consistent about the degree to which South Africa should pursue a market orthodox finance and industrial policy. While the IMF and GATT demanded the abolishment of all subsidisation policies, the World Bank was doubtful whether the country could achieve competitiveness without a scheme such as GEIS, in order to stimulate exports (Ahmad 1994:14). Proposals from COSATU and other circles were made to restructure GEIS so that it would into benefit small and medium labour intensive industries. The government went for the harsher alternative. This affected the textile industry in particular (Bond 2005:49, Marais 2011:92), where tariffs were reduced faster than the GATT demanded. Resulting in hundreds of thousand jobs were lost in this sector.

Table 3: Average rate (%) of import duty /import 1994 weighted)

Broad economic classification	1994	1995	1996	1997	1998	1999	2000	2001	2002	GATT binding
Consumption goods	34	29	27	28	24	23	21	20	18	27
Intermediate goods	8	5	5	5	4	4	4	4	4	10

Capital goods	11	8	7	7	6	6	6	6	6	15
Unclassified goods	11	13	12	10	10	8	8	8	8	10
Total industry	15	12	11	10	10	9	9	8	8	16

(Bell 1997:76).

In August 1994, the newly-funded Department of Trade and Industry announced a change in the tariff system that went far beyond the demands from GATT. Especially affected were the textile, clothing and automobile industries. “At that time, the cuts did not slot into a strategic package, aimed at impelling those industries in a more competitive directions. It was sheer economic Darwinism” (Marais 2001:115). This happened simultaneously as the responsible minister, Trevor Manuel, declared that the worst-case scenario for many South African industries was to throw them too quickly to into the international competition¹³. Table 3 shows that the ANC government went far beyond the demands made by GATT after the signing of the 1994 Uruguay Round, in lowering their industrial tariffs. It is hard to say why the ANC did this, but I believe it might be an indicator showing that the ANC accepted and embraced a neoliberal way of understanding economics. The policy pursued by the ANC was unilateral trade liberalization. It lowered the tariff on imported goods, but did not continue a policy like GEIS or ISI, which historically have been important tools used by social democratic regimes to stimulate growth within key industries. The ANC government was eager to show its commitment to international markets.

Chapter 5 has showed how the primary advocates, the South African corporate sector and international finance institutions, tried to influence the making of a social and economic structure in the new multiracial Rainbow Nation. It is a bit difficult to judge which of these two actors, and their sub actors, were most influential in affecting the ANC’s social and economic policy. It feel quite absurd to try to imagine how a counterfactual reality would look like, and how South Africa’s trajectory would look like without the influence of these neoliberal advocates. However, it is not an exaggeration to claim that if the ANC wanted to pursue what is to be characterized as social democratic goals, the influence from the international finance institutions and the corporate sector, which was severe, most likely made it adopt a more Third Way kind of social democracy.

¹³ The World Bank also warned against the dangers of removing tariffs to rapidly (Ahmad 1994:16)

Chapter 6 – Advocates for the Democratic management path and the development of ANC and COSATUs economic policies

6.1 - Introduction

Despite the role and influence by different actors in determining South Africa's trajectory after 1994, in the end, the ANC was to decide the goals, policies and how to implement them. Since it was by far the biggest party after the first democratic election in the country. One of the goals in this chapter is to show how the ANC's economic policies developed, and why. Since the RDP and GEAR programmes have already been studied, this chapter will focus on the ANC's economic policies up until the creation of the RDP in 1994. I will also briefly review the history and ideology of South Africa's ruling party, to show that the ANC is not only a socialist organization, but with essential Africanist ideological roots.

Chapter 6 will also contain a review of the efforts from the other main actor that tried to influence the outcome, in addition to the South African corporate sector and the international finance institutions: COSATU. The last part of this chapter will go through several documents on the future of the South African economy and macroeconomic scenarios, made by COSATU. The meaning of this part is two folded. The first point is to show that there were actors and alternatives to the neoliberal advocates and scenarios. The other point is to increase our understanding of why these, and the MERG report in particular, alternative scenarios never became a realistic alternative for the ANC government.

6.2 - The history and ideology of the African National Congress

The ANC has been the dominant political party in South Africa since the country's first democratic election in 1994. The ANC was founded in 1912, and is Africa's oldest liberation movement (De Jager 2012:149). In 1960¹⁴ the ANC was banned, and had to move its actions underground. In 1961 the ANC adopted armed struggle as a strategy to overthrow the government, this was implemented with the creation of Umkhonto we Sizwe, or spear of the nation (MK) (Ellis 2012:96). Until 1976, the ANC and the MK were not the dominant groups in the South African liberation struggle. However, this was all about to change after 1976 and the Soweto Uprising. This event triggered a flow of young South Africans that wanted to

¹⁴ The ANC was illegal in South Africa between 1960 and 1990.

overthrow the Apartheid regime by force. Many thousand joined the MK, and gave the ANC's armed wing a new hope and recruits.

It is easy to “blame” international finance institutions and the corporate sector for the lack of a progressive social and economic system in Post-Apartheid South Africa. Should we take it for granted that the ANC was a Radical social democratic party in favour of an activist state and a progressive social and economic system? The answer is not a coherent yes. The ANC, like many other liberation movements¹⁵ in the Third World that were fighting against the colonial masters, proclaimed a socialist ideology, very often to receive support from the Soviet Union. The ANC's legacy is based on several different ideological pillars, where leftist socialism is just one of them. How is the ideology of the ANC of any importance? In all the cases used in Sandbrook et al. (2007), socialist and social democratic parties were in the forefront in the creation of social democratic institutions and systems. It would not be unnatural to assume that if non- socialist/social democratic ideologies were more dominant within the ANC, than that of socialist/social democracy, that this would not increase the likelihood that the ANC would follow a social democratic course after 1994.

The history of the ANC shows three main ideological influences. The first of the three traditions originates from the founders of the party. In 1912, a group of prominent black African created the South African Native National Congress (SANNC). The core of the party consisted of a black middle class of lawyers, doctors, landowners and journalists (De Jager 2009:276). The founding fathers of the ANC tended to be fruits of the early European Christian missionaries, who provided education for the black population several places in today's South Africa. The students were educated in a “(...) relatively liberal Western tradition” (De Jager 2009:276). In the 1920s a new ideological wave on the African continent flooded over the party; the idea of Pan-Africanism and “Africa for Africans”, which became the second pillar (De Jager 2009:276). The third pillar was left wing communism and anti-racism, and was introduced by the Communist Party of South Africa¹⁶ (CPSA), a lifelong partner for the ANC (De Jager 2009:276). CPSA was the first organization to organize across

¹⁵ Many African national liberation movements struggled by moving from being a military movement, to becoming a political actor in a liberal parliamentary democracy. I will not address this question more deeply in this thesis, but it might be an interesting factor to address, to see how this might have affected the broad development in South Africa after Apartheid under ANC rule.

¹⁶ Formed in 1921, it later changed its name to SACP.

racial groups in South Africa¹⁷. ANC has also been influenced by different traditions by those who were in exile, trade unions and of those incarnated during Apartheid.

Since the foundation of the party, it has been riddled with factionalism between Africanist and communist ideology. The ANC Congress in Polokwane, 2007, where Thabo Mbeki was removed in favour of Jacob Zuma, has been viewed as an ideological battle within the ANC and its partners within the Tripartite Alliance (Butler 2013:3). Different indicators might show that the Africanist element of the ANC's ideology is more dominant than its socialist/social democratic ideology in the implementation of programmes like AA and BEE.

6.3 - The ANC's economic policy

6.3.1 - The ANC's lack of economic policy

I claim that one of the reasons for the ANC adopting neoliberal policies after 1994 was because the ANC lacked a coherent economic policy when it was unbanned in 1990. This made the party very open to accept neoliberal economic policies, which was the dominant way of doing economics at the End of History (Fukuyama 1992). "When the ANC was unbanned in 1990, it had no economic policy" (Marais 2001:124). The party's main goal was to remove the Apartheid regime. Its attitude can be summed up in the slogan of Kwame Nkrumah: "Seek ye first the political kingdom and all else will follow" (Terreblanche 2002:85). The party's economic policy had since 1955 been based on the Freedom Charter, which was the ANC's political manifesto, and was later adopted by organisations like the UDF and COSATU. The Charter was not a detailed programme, and economic issues were just a minor part of the document. The document states the following, on the issue of economy:

"The People Shall Share in the Country's Wealth!

The national wealth of our country, the heritage of South Africans, shall be restored to the people;

¹⁷ The ANC started as a movement exclusively for black South Africans, and people of other races were not allowed to join the organization. The final abolishment of all racial distinction did not happen until the Kabwe Conference in 1988, where people from all races were allowed to sit in the National Executive Committee (NEC), for the first time (Ellis 2012:218).

The mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole;

All other industry and trade shall be controlled to assist the wellbeing of the people;

All people shall have equal rights to trade where they choose, to manufacture and to enter all trades, crafts and professions” (ANC 1955).

Many interpreted the program, because of the SACP's relationship to the Soviet Union, as a program of nationalization and even full blown socialism. Between 1955 and 1990 the ANC published no new statement on economic policy issues, except to reaffirm its commitment to the Freedom Charter in its 1988 constitutional guidelines (Terreblanche 2002: 85). It is not completely correct to claim that the ANC did not have an economic policy during its struggle against the Apartheid system. Intellectuals like Joe Slovo, general secretary of SACP, and a high ranking member of the ANC, were influential. In his book *South Africa – No Middle Road*, Slovo (1978) argued that there was only one road for South Africa, a road with only one alternative, a road with an armed liberation and a socialist economic revolution. The notion for this conclusion was that Apartheid and the capitalist system in South Africa were so interconnected that it was impossible to remove one without removing the other (Terreblanche 2002:85). SACP used the term “Colonialism of a Special Type” (ANC 1987), which again was tightly linked to Lenin's understanding of Imperialism as Capitalism's highest stage. This analysis was widely accepted by the ANC, the UDF and black consciousness organizations.

6.3.2 - ANC's attempt to make an economic policy

The ANC's first serious attempt to create an economic policy came in the form of a “Discussion Document of Economic Policy” (ANC 1990:1), which was published after the Department on Economic Policy's (DEP) Harare Workshop in September 1990. It was not a statement on the ANC's economic policy, but a document that was to stimulate discussion within the ANC and its partners (ANC 1990:1). In the main, the document echoed policy work done by the COSATU's Economic Trends Group. The DEP document envisaged an active role for the state in planning industrial strategy, but the ANC was very sceptical about using ISI (Bell 1997:76), as a tool to boost the country's industrial capabilities, a tool used by many activist states during the Keynesian economic period (Amsden 2007).

Basic needs would not be met by inflationary financing, but by marshalling domestic savings and raising corporate taxes. The DEP also advised the unbundling of conglomerates in order to stimulate competition and allow entry by small and medium size enterprises in the economy. The demand from the corporate sector for a low wage economy was rejected, and the document put a lot of attention on the role of organized labour in devising and implementing policies (Marais 2001: 125). The overriding theme was growth through redistribution, a formula where redistribution was to trigger long-term economic growth, and cover the basic needs among the people. It is a bit difficult to evaluate to which degree this document was “social democratic” or not, since the “Discussion Document of Economic Policy” was nothing more than a draft to kick-start a process and a platform to discuss the social and economic development in South Africa after Apartheid.

In May 1992, the ANC Policy Conference adopted a reworked economic policy document called “Ready to Govern” (Terreblanche 2002:87, Hirsch 2005:53), which was the ANC’s first major document on economic policy after the unbanning in 1990. During the Policy Conference in 1992, the ANC removed itself from the growth through redistribution idea, which was central in the discussion document from the Harare Workshop. In the Ready to Govern document, the term was not mentioned, at least not in a Keynesian way, only on the issue of land redistribution. Compared to the Discussion Document of economic policy, the state was reduced to a provider of infrastructure and welfare transfers. In the document, the party committed itself to macroeconomic balance. According to the document, the basic objective was to overcome the colonial and Apartheid, its legacy of inequality and injustice: “(...) in a swift, progressive, and principle way” (Terreblanche 2002:87-88). According to Terreblanche; “(...) this document contained the first shift in ANC’s ideological orientation; even more fundamental shifts took place over the next year and a half” (Terreblanche 2002:88).

During the conference there were two key debates: the first being on the role of the state with respect to nationalization, and the other one was South Africa’s relationship to the multilateral financial institutions. The conference decided that relations with the World Bank and the IMF should be conducted in such a way to “(...) protect the integrity of the South African population and the economy”. The ANC would also strive to “(...) reduce dependence on international financial institutions” (Hirsch 2005:53). This did not stop the ANC from signing the deal with the IMF in 1993.

The ANC staked out a course for trade liberalizing and to “(...) participate in international institutions governing multilateral trading arrangements” (ANC 1992), which would imply the embrace of GATT’s trade regime, and a reduction in tariffs and subsidies. In the Ready to Govern Document, the ANC stated more full-heartedly its embrace of the strategy for global integration. It looks like the ANC started to realize that they were a part of a new economic and geopolitical context: “A democratic South Africa’s foreign policy will further be influenced by the emergence of a New World Order whose major elements include the collapse of the socialist community of states and the emergence of a uni-polar world whose features include the increased influence of the U.S. and its allies in world affairs” (ANC 1992).

From the launch of the vague Freedom Charter until the GEAR programme, there is no doubt that the ANC became more receptive to a neoliberal social and economic path, where an important element was to limit the state’s role in the economic sector, remove tariffs, financial control and cut corporate taxes to create a business-friendly environment. The idea of an activist state (Sandbrook et al. 2007:68), broadly defined, which is considered to be one of the major elements in the development of a social democratic regime, was abandoned in favour of the idea of a business and investment-friendly environment, and a limited state.

6.4 - COSATUs and the democratic movements role in influencing the policy making

This section will review the most important document created by the most dominant advocate for a more socialist/social democratic development path: COSATU. It will not only review COSATU’s most central documents, ISP and the MERG report, but also try to explain why COSATU’s scenarios never became a reality.

COSATU played a major role in bringing down the Apartheid state. After it joined an alliance with the ANC and the SACP, it became influential in the creation of Post-Apartheid South Africa. Within the Triple Alliance, COSATU had different ways of influencing the policymaking of the ANC, directly and indirectly. It directly influenced the ANC by having a direct channel and representation towards the ANC-led alliance, their branches and organs (such as the DEP). The DEP was very much influenced by COSATU’s Economic Trends Group, a collective of economists and other social scientists connected to COSATU. COSATU’s main producer of policies and economic scenarios was the Economic Trends Group, and was, among others, very influential in the making of ANC’s “Discussion

Document on Economic Policy” in 1990 (Marais 2001:124). The document included extensive state intervention and an active role for the state in the planning of industrial strategies, and overcoming racial, gender and geographical inequalities, and was very much in line with COSATU’s egalitarian and redistribution ideals and policies (Khunou 2012:170).

COSATU also published a number of documents as an independent organization. The Industrial Strategy Project (ISP) was a report launched in September 1994, but the research group started its work in 1990. The group was closely connected to the Economic Trends Group. The group mandate was to see how South Africa could restructure its continuously downward-moving economy, and address the poor performance of South Africa’s manufacturing industry (Joffe, Kaplan, Kaplinsky & Lewis 1995:xi). It was not only business and international finance institutions that promoted export led growth as a path to solve many of the country’s economic and social problems. This stance was also promoted by the COSATU initiated ISP. Improved manufacturing had long been an important means to redress South Africa’s dependency on exporting primary commodities to more technology-intensive products (Marais 2001:131). Unlike the business scenarios, the ISP did not stress that competitiveness should mainly come through lower input costs, such as lower wages among workers, but from increased product quality and variety, rapid innovation, capital and labour productivity (Marais 2001:131). The ISP also put emphasis on high value added products. Unlike the international finance institutions like the IMF, the World Bank and the GATT, the ISP did not suggest randomly removing tariffs, but proposed ‘a trade policy that attempted to sharpen the flow of incentives from the international market within an overall industrial strategy (Marais 2001:131). The ISP’s recommendations can be said to be of a Post-Fordist character, where the state was expected to play an active part.

The report was too little, too late. The report was only published in September 1994, after important policy decisions on economic issues had already been taken by the ANC (Terreblanche 2002:89). ISP suffered a similar fate as the most coherent alternative to the neoliberal scenarios, the MERG report.

6.5 - The most coherent alternative to the neoliberal path - The MERG Report

By now I have showed that the ANC has lead Post-Apartheid South Africa along a neoliberal trajectory, and as a result created a Third Way social democratic system. It is legitimate to ask if there existed any realistic alternatives to the road that was taken by the ANC. “Making Democracy Work was the most coherent progressive option available” (Marais 2011:107). In

1991, the ANC set up MERG to train black economists, support COSATU on economic issues, and to develop a new macroeconomic model for South Africa. MERG was mainly a product of foreign intervention by a team to contribute to the economic policy making within the ANC (Terreblanche 2002:88). It was also foreign funded. MERG employed a number of researchers, to engage in research ranging from macroeconomic modelling to designing specific policy proposals in areas such as manufacturing, mining, rural development and reforming state structures (Nattrass 1994:219).

The core of the MERG proposal is a two-stage plan to transform the economy. The first phase consists of the “initial public-investment-led-phase” between 1993 and 1996. The second phase is the “sustainable growth phase” between 1999 and 2004. The first phase was intended to improve the social and physical infrastructure in the country; infrastructure such as housing, rural water supply, schooling, health services and electricity. It was seen as the main impetus in the early phase. The idea, very Keynesian in its logic, was that the investments, made by the state, would improve the prospects for “*private sector investments*” (MERG 1993:27). The MERG report did not entirely rely on infrastructure investment to stimulate growth in the economy. Policies to stimulate efficiency were also important.

One of the MERG report’s many goals was to reconstruct the South African economy, and boost growth to 5% by the year 2004, and create 300 000 jobs a year. It recommended land reform and public works programmes to target the poor directly. Unlike policies and programs that became dominant in South Africa after 1994, which had a “trickle-down” approach for lifting the millions living in poverty, the MERG report recommended high investment in human development. It put a lot of emphasis on education and training, as a result of this, it also suggested a large increase in public spending (Nattrass 1994:219).

Unlike the commitments the ANC made with the IMF, the MERG report recommended a rise in wages and a national minimum wage. The report played down the possibility of job losses as a result of this (MERG 1993:154). The MERG report argued that higher wages would not only have social effect among some of the poorest groups within the population, and increase their standard of living, but also stimulate corporations to increase their productivity and avoid ‘getting caught’ in a low wage, low skilled and low production vicious circle (MERG 1993:163).

The report put a lot of focus on direct state intervention in the operation of business. One recommendation was to restructure the way large, often conglomerate, firms make their

investments, to a more direct intervention in the operation of the business. According to (Nattrass 1994) this included

“(…) state intervention in output and pricing decisions in the minerals sector; regulation of the housing and building supplies market; tightening and extending controls on mergers and acquisitions; monitoring the behaviour of participants in oligopolistic markets; and creating supervisory boards (consisting of bank, trade union and other represented interests) for larger companies” (Nattrass 1994:223).

The MERG report also suggested control over the allocation of investment with a Capital Issues Commission, which was to authorize company plans for new investments.

These were just some of the aspects in the MERG report. One of the most essential points in the MERG document is that it promoted a developmental path that included an activist state in the economy, and a hands-on approach in dealing with the poverty issue, where the state was to invest on a large scale in physical and social infrastructure. MERG stands as a stark contrast to the path chosen by the ANC.

The major recommendations from the MERG report never became the macroeconomic framework for Post-Apartheid South Africa. A possible explanation is that it became a subject of serious criticism by the media and economists. Nattrass (1994) claims that the recommendations were too ‘statist’, and that the document was too positive on how the corporate sector would respond to an economic policy where the state was a major factor in deciding investments, raising minimum wages and controlling vast parts of the economy, especially in the investment phase between 1994 and 1999 (Nattrass 1994:224). In other words; there was too much state, which made the economic climate not business-friendly enough, which again would lead to lower investments, lower activity in the economy and fewer jobs and tax revenues: “(…) the report is uneven and schizophrenic” (Nattrass 1994:220). Despite this, the MERG report had some minor success. Some of the proposals would be exhumed into the Social Equity and Job Creation document in 1996.

The MERG report and ISP did face the same problems¹⁸. They both were published after the ANC had decided the future of South Africa’s social and economic policies. Mainstream

¹⁸ Another element that might lead to the fact that the ANC did not use the report was that there was a tension between the MERG group and ANC’s DEP. It has been claimed that the DEP suspected that its own functions were usurped by MERG (Terreblanche 2002:88).

media and economists savaged it, and accused it of being too statist, and underestimating the consequence of not being business-friendly enough. Many ANC leaders followed the critics. The political left was not capable of defending the reports and its proposals. The report was ignored and forgotten.

6.6 - The development of COSATU's economic policies

The ANC is not the only political organization in South Africa to change its economic policy from the early 1990s. This was also the case with COSATU. In this thesis, I argue, among others, that ANC went through a rightward trajectory from its unbanning and onward to the declaration of GEAR. It is also possible, to some degree, to claim that COSATU also moved itself to the 'right' in that same period. Lehulere (2003:26) claims that we can separate the evolution of COSATU's economic policies into three different phases, going from a socialist position to right wing Keynesianism.

These phases were between:

1. Its foundation (1985) until its Economic Policy Conference in 1992.
2. From about 1993, with the RDP initiative by the federation, to early 1995.
3. From the launch of the Social Equity and job creation document in early 1996 to the present (Lehulere 2003:26).

In its early days, it is not controversial to characterize COSATU's economic policy as being of a socialist kind. When it was founded, it accepted the ANC's Freedom Charter (Lehulere 2003:27). At their second congress in 1987 the organization manifested their position as a militant socialist organization: "(...) true liberation can only be achieved through an economic and social transformation of our society to serve the interest of the working class" (Lehulere 2003:27). The document from COSATU's 1987 Congress contained a number of ideological phrases about the liberation of the working class, and the role it should play as the dominant political force in the new democratic South Africa, but also a more detailed plan for the restructuring of the South African economy. It put a lot of emphasis on redistribution as a means to decrease poverty, and create growth. This redistribution was not only about wealth, but also about resources and power. This process should be done by "(...) a process of state redistribution combining nationalisation, anti-trust legislation and other forms of legislative intervention, including price control" (Lehulere 2003:28). It also recommended an implementation of the policy where not only the state was responsible, but also where the civil society and the trade unions were participants.

After their conference in 1992, they published a document entitled Economic Policy in COSATU, and marked the transition from a socialist attitude to a more Keynesian variety. One example of their “rightward trajectory” was that the document from the conference did not use the term ‘growth to redistribution’ (Lehulere 2003:30). It marked a shift away from Radical ideas of redistribution, towards a more market-oriented attitude to how the distribution of wealth was to be done. Other important documents that reflects COSATU’s Classical Keynesian phase, according to Lehulere (Lehulere 2003:31), was the MERG report and RDP documents, where COSATU was very active, and a commitment to COSATU’s egalitarian redistributive objectives (Khunou 2012:169).

The second Classical Keynesian phase in the evolution of COSATU’s economic policy was short lived. The MERG report was forgotten, and the RDP was abandoned not long after it became official policy for the ANC. By the time the MERG report was launched, the ANC had already committed itself to neoliberal politics by signing the IMF in 1993 (Marais 2001:76-100). Lehulere claims that COSATU also adopted a more right-wing Keynesian economic policy after 1996. The milestone was COSATU’s silent approval of GEAR (Lehulere 2003:33).

6.7 - The relationship between COSATU and ANC within the alliance

One might think that COSATU was very influential within the fold of the ANC, and was able to exercise direct influence on the policymaking within the ANC. This might be the case. Some literature argues that the junior partners within the alliance, COSATU and SACP, had all agreed, in terms of their membership in the alliance, to subsume their own positions on economic restructuring to that of the ANC itself: “After the ANCs unbanning in 1990, the unions bowed to its hegemony in the political arena” (Forrest 2011:470). ANC was the spear¹⁹, and COSATU the shield. The close relationship between COSATU and the ANC is also said to have resulted in ‘brain drain’ from COSATU. Many people who were extremely important in the building of the union, both at a political and ideological level were incorporated in the ANC and the state administration when the ANC took office in 1994 (Padayachee 1997:47). The union lost a lot of significant ‘cadres’ in the leadership, that undoubtedly weakened COSATU’s ability and capacity to respond to the changed circumstances of the 1990s with the same strength and effectiveness as it did in the 1980s.

¹⁹ This is a reference made to the armed wing of ANCs Anti-Apartheid struggle, where MK was the spear of the Nation, and COSATU the shield of workers’ rights.

I would claim that one such example was COSATU's behaviour for a period after the adoption of GEAR. The critics were relatively quiet, especially the leftist segments in the Tripartite Alliance: "Remarkable levels of discipline were maintained in the ANC's top ranks and among its allies" (Marais 2011:112). The protest from COSATU never came, despite the fact that GEAR represented a developmental path close to that of NPs NEM, which COSATU was extremely critical of. When it joined the Tripartite Alliance, it lost its autonomy and ability, to a large degree, to be an organization promoting a more progressive developmental path.

Both the ANC and the single most important advocate for an activist state in both social and economic policies, COSATU, went through what can be described as a rightward trajectory from the late 1980s and at least to the proclamation of the GEAR programme in 1996: the programme that manifested South Africa's path to a Third Way social democratic system. It is possible to point to several potential reasons for this. For the ANC, I would claim that the ANC's lack of a coherent economic policy when it was unbanned made it an easy object for the adaption of the economic ideas that was hegemonic in the period after the fall of the Soviet Union. This combined with pressure from actors like the South African corporate sector and international finance institutions, as showed in Chapter 5, both advocates for what can be described as a neoliberal economic policy. This convinced the ANC that the creation of an investment and business-friendly environment was the way to proceed in the Post-Apartheid era. The advocates for a "more" social democratic and activist state, mainly COSATU, also went through a more rightward trajectory, and the most coherent alternatives to the neoliberal policies were launched only after the ANC had decided the macroeconomic future for South Africa.

Chapter 7 - Analysis: Why was the internationalization path eventually successful? Which arguments did the ANC use to justify its choices?

7.1 - Introduction

After 1994, South Africa chose a neoliberal development path, which consequently shaped the country into a Third Way social democratic system. When arguing for this I lean on the theoretical framework provided by Sandbrook et al. (2007) and their study of social democratic regimes in the global periphery. The main reason for South Africa's development into a Third Way social democracy is the prevalence of neoliberal ideas and practices in Post-Apartheid South Africa.

7.2 - South Africa: a Third Way social democracy

Since the fall of Apartheid the South African society has gone through major reforms. Some social infrastructure has been built, as shown in Chapter 3. The clearest indication of South Africa being a Third Way social democratic regime is the fact that the Post-Apartheid regime has only been capable of combating extreme poverty, while the Gini Index has risen between 1994 and 2014. The South African government has not been able to create a comprehensive security system to radically transform the injustice from the era of racial segregation. Wealth is still largely white and poverty largely black. Another major Third Way feature South Africa exhibits is the state's role in the economy. Its market-oriented economy, and GEAR strategy where the essence is to limit state regulations and involvement in the economy to create a business and investment friendly environment is a clear Third Way feature. With the concept of a business-friendly system, came also a process of removing the traditional tools, like finance regulations, subsidies and tariffs that were important instruments for social democratic policies and regimes. This, together with a low tax regime, left the South African state without the sufficient means to invest in social infrastructure, and radically transform the legacy of inequality and poverty created by racial segregation and Apartheid. Within these two fields, South Africa shows similarities with the Chilean case.

Post-Apartheid South Africa also has some Radical elements to its system. The most prominent is the coherent and progressive labour laws, which secure labour in the formal

economy a minimum wage and job security. In Chapter 3 I highlighted some of the problems of categorizing South Africa according to Sandbrook et al.'s (2007) criteria, but the fact that South Africa has some radical features, strengthens my notion that South Africa can be described as a social democracy.

What is even more interesting than the fact that I categorize Post-Apartheid South Africa as a Third Way social democracy, is how it became one. There is a direct link between South Africa's Third Way structure, and the social and economic policies, like GEAR and others, made by the ANC after 1994. The next section will show how the ANC legitimized its policies.

7.3 - How did the ANC legitimize its policies?

This section will analyse and show how the ANC legitimized the policies that shaped South Africa into a Third Way social democracy. The main focus will be on the RDP and the GEAR programme, with the last of which indeed manifested South Africa's Third Way development.

The RDP was created to undo the injustice of the past. There was a broad consensus in the South African society on the principles and the objectives of the RDP. In other words, it was easy for the ANC to justify the goals in the RDP. The RDP was celebrated as progressive, and a blueprint for a social democratic heaven. Some of the main elements in the programme were the relocation of existing revenues in the national budget. Other budget posts were to milk the military budget, traditionally very big, and considered excessively large. There was not an option to increase the taxes or borrow money to invest in productive or social capital. The largest portions of RDP projects would be financed by working within the same economic framework, and be financed by better use of existing resources. But in the end it became quite clear that the RDP was nothing more than a far-reaching statement and vision, and not really a macroeconomic framework.

Even though the office was closed in 1996, the goals of the RDP were never officially abandoned. The policies of GEAR, which replaced RDP, were justified, very pragmatically by the ANC, to be a better and more efficient tool to reach the goals in the RDP. It is not controversial to say that the state's role in the economy was rolled back with the declaration of GEAR, and there is little in the declaration that indicated that the ANC government was making a developmental state. All the policies in GEAR, or in some cases the lack of an active policy, represent a desperate strategy to attract FDI. State interventions in the economy

were to be limited to create a business-friendly heaven. The argument to justify GEAR was quite easy. South Africa had a range of social and economic problems. This was to be solved by following a tight fiscal and monetary policy, which would create an ideal climate for business, which in turn would attract investments, resulting in job creation and economic growth.

There was a great sense of continuity between the NPs NEM and the ANC's GEAR. There was also a great deal of continuity in the development of the ANC's economic policy. In 1993, the TEC decided that South Africa needed a loan from the IMF. Before getting the loans from the IMF, the South African government had to sign a document about the future macroeconomic policy: "It becomes clear that it was the GEAR of 1996 in embryo form" (Terreblanche 2012:65). By implementing GEAR and other policies, South Africa was forged into a Third Way social democracy.

7.4 - Why was the logic of neoliberalism successful?

The following step is to analyse why the ANC ended up embracing the logic of neoliberalism as the broader developmental path in Post-Apartheid South Africa. The major reasons for this were the success of the neoliberal advocates, primarily the international finance institutions and the South African corporate sector. The prevalence of the neoliberal alternative also meant the failure of more progressive development paths that could have shaped South Africa into a more Classic or Radical social democratic system.

7.4.1 - The lack of alternatives in a Post-Cold War era

Some possible explanations for the ANC's embrace of the neoliberal path are to be found in the history of the ANC. When the ANC was unbanned in 1990 it lacked a coherent economic policy. A mentality, where the party should defeat Apartheid, and everything else would follow, existed in the party. Its major document, the Freedom Charter, offered nothing more than wage guidelines. In Sandbrook et al.'s (2007) cases socialist and social democratic parties were elementary. It should not be taken for granted that the ANC was primarily a socialist or social democratic party with the will to create social democratic structures in South Africa. The ideological foundation of the ANC is built on several different pillars. The socialist aspect was very dominant during the fight against the Apartheid regime, but it seems Africanism became more dominant after 1994. AA and BEE, which included the building of a patriotic black capitalist class, may indicate that the ANC is more Africanist than socialist.

The advocates for a “more activist state”, to use one of Sandbrook et al.’s (2007) definition of social democracy, and COSATU in particular, was not able to convince the ANC that this was the way to go for South Africa. The most realistic and coherent alternative was the MERG report. The report never made it further than to the drawing board. It also became a subject of heavy criticism from the media and the corporate sector. It was accused of being too pro-state, and overestimated the business sector’s will to be told where to invest its capital and resources. When the MERG report was published in 1994, the ANC had already signed the IMFs document, and committed itself to follow a neoliberal economic policy. They were unable to provide coherent alternatives, and those produced, like the MERG report and ISP, came too little, too late.

COSATU never became as effective as the South African corporate sector, and MEC in particular, in influencing the outcome of the South African transition. This happened despite the fact that COSATU had a direct channel towards the ANC, as part of the Tripartite Alliance, and indirectly by making independent policies and scenarios. COSATU was extremely important in the final days of the struggle against the Apartheid regime. It experienced brain drain after the unbanning of the ANC. Several important characters that were extremely important in the building of COSATU’s organizational and political abilities were absorbed by the ANC and the state apparatus. COSATU also took a more submissive role after going into the ANC led alliance. In many ways, it gave up its ability to act as an independent and progressive agitator. One example of this is during the launch of GEAR, when COSATU was relatively quiet in its critique of GEAR’s neoliberal economic framework.

7.4.2 - The neoliberal advocates

When it comes to the role of the neoliberal advocates it becomes rather difficult to be counterfactual, and imagine in what direction the country could have developed if the South African corporate sector and international finance institutions did not try to influence the transition. What is quite clear is that both these actors were influential in the process that led to the ANC’s decision to follow neoliberal policies.

There was an overwhelming ideological bombardment of the ANC. The South African corporate sector was able to exercise a great deal of influence during the transition period, by creating a large number of documents, publications and having informal meetings with the elite within the ANC. It may seem that the corporate sector was successful in defining the

right economic policies that South Africa should pursue as a multiracial democracy. It was also able to create a myth about the sector's fragility caused by decades of economic deprivation, and that, because of this, the new democratic government of South Africa could not interfere and control the sector. It needed a business-friendly environment where the sector was to pursue its goals, which was in the interest of the whole people. This is another important feature: it was able to convince the ANC that the corporate sector represented a common good. What was good for the corporate sector was a Post-Apartheid economic scenario where the role of the state was limited. Regulations such as exchange controls and finance regulations should be removed, and the state should not be tempted to pursue what was to be described as macroeconomic populism, raise taxes or expenditures, or use redistribution as a tool to eradicate poverty and to create growth. The corporate sector, with the MEC and AAC playing leading roles, was able to make the ANC remove itself from redistribution and economic scenarios with an activist social democratic policy, and instead follow a neoliberal growth path.

The Bretton Woods institutions, the World Bank, IMF and GATT, were very active in affecting the outcome of the South African transition. The IMF highlighted the importance of a limited state, good fiscal policies and internationalized trade and financial policies. The IMF agitated for a trickle-down approach, while the World Bank was not so coherent, and not so sure that South Africa was going to be able to lift the millions of marginalized people out of poverty without having an activist state and a hands-on approach in dealing with poverty.

The ANC showed an extreme will to adopt neoliberal policies. Unlike many other countries in the global South, South Africa was never a subject to SAP in exchange for loans. The ANC signed on a voluntary basis a deal with the IMF for a US\$ 850 million loan, and accepted the conditions given in the "Letter of Intent", which committed the future governments to liberalize the economy. By signing the deal with the IMF, the ANC gave away, to some degree, the possibility of having an activist state with a major role in the building of the Post-Apartheid economy.

GATT was primarily able to affect South Africa by making the ANC government sign the Uruguay Round in 1994. By signing this, the ANC committed itself to liberalize trade and its industrial policies, and cut subsidy schemes to the manufacturing industry. One can discuss how realistic it was for the government not to sign the agreement with GATT, however, this was not an alternative. Nevertheless, what is interesting is that the ANC government went

further in liberalizing trade by lowering tariffs on imports rapidly, which led to massive job losses, especially in the textile industry. There was no selective removal of tariffs as a part of a bigger industrial policy, and strategic packages aimed at impelling different industries in a more competitive direction. It was pure economic Darwinism. And unlike the Classic and Radical cases in Sandbrook et al. (2007), the ANC did not implement an active industrial policy to support the sectors that was affected by the tariff removal.

South Africa: a Third Way Social Democracy - Did it end up paying the short-term costs without the long-term gains?

I would claim that the neoliberal strategy of trickle-down economics has only been successful to a certain degree. The whole idea of a very limited state, low taxes and expenditures, left the state apparatus with only a limited capacity to deal with the extensive poverty and the legacy from the Apartheid era. The GEAR policy was not able to boost growth in South Africa. The growth between 1996 and 2000 was practically zero and the growth after 2000 has been characterized as jobless growth, meaning that the growth indicators have been positive, but without an increase in employment, which was the redistribution element of GEAR.

The constraints of neoliberalism have shaped South Africa into a Third Way social democratic regime. If we use Sandbrook et al. (2007), it is quite clear that Post-Apartheid South Africa has most in common with the Chilean example. Only capable of fighting extreme poverty, and not building a coherent welfare state and reducing social and economic inequality, it resembles a Third Way social democracy. On the other hand the ANC government has implemented a set of social rights in the labour market, and by doing this, it has been willing and able to “(...) secure basic social rights, provide protection against market forces” (Sandbrook et al. 2007:68).

By accepting a neoliberal economic framework, the ANC also accepted that the role of the state within the economy was to be limited. Radical and Classic social democratic systems, illustrated in Sandbrook et al. (2007), had all broad social, industrial and economic policies, which included the use of tariffs, subsidies and ISI. The strategy in South Africa under the ANC government has been to limit the state to attract investment and market based growth that was to trickle down on the population. An idea neoliberal to the core.

Chapter 8 – Concluding remarks

As we have seen, there are many reasons for the prevalence of neoliberal ideas and practices in Post-Apartheid South Africa. I still claim that the most obvious reasons are the strength and efficiency of the South African corporate sector and the international finance institutions which managed to influence the ANC during the transition period and the fact that the ANC did not have a coherent economic policy when it was unbanned. This together with the fact that Apartheid fell in an era where neoliberal capitalism was considered triumphant, and the advocates for more progressive macroeconomic scenarios was not able to provide an alternative path for South Africa, led to the ANC's adoption of neoliberal ideas and practices in Post-Apartheid South Africa. Ultimately this shaped South Africa into a Third Way social democracy.

I sincerely hope this thesis can be a positive contribution to increase our knowledge of South Africa's transition in general, and the dynamics of the country's social and economic transformation after 1994, in particular.

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