

**Varieties of Neoliberalism within the Post-Cold War period:
Economic Policy in Post-Apartheid South Africa**

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Declaration

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Abstract

This thesis describes the development of neoliberalism within the global context and explains how this ideology influenced economic policy formulation in post-apartheid South Africa. Policies from the Growth, Employment and Redistribution (GEAR) to the New Economic Growth Path (NEGP) are analysed within the timeframe from 1996 to 2011 to determine how and whether neoliberalism had an impact on policy formulation.

The development of neoliberal thinking is historicised to illustrate how it became the dominant ideational framework at the world order level. This was a path dependent process which is traced at the social, institutional and ideational levels. The establishment of the Mont Pelerin Society, the development of the post-Second World War economic order and the development and implementation of the Washington Consensus are important aspects of a counter-ideational challenge to Keynesianism which took place over some 25 years. The rationale behind neoliberalism and the implementation of neoliberal policies is strongly motivated by assumptions such as private property rights, deregulation of trade, finance and production and a form of state which facilitates market dominant policies.

Neoliberalism strongly came to prominence during the 1970s and 1980s. During this time increased pressure was placed on the South African *apartheid* government from outside and inside to implement more market-orientated or neoliberal economic policies. It became increasingly evident that South Africa's isolation to economic globalisation was not sustainable. At the time of the unbanning of the African National Congress (ANC) and the release of Nelson Mandela in 1990, the ANC did not have a clearly formulated economic programme. Neoliberal thinking gradually gained in influence among ANC leaders and policy makers and after the party resoundingly won the 1994 elections, it seemed that neoliberal thinking became well established, albeit with some important variations and distinctive characteristics.

The Growth, Employment and Redistribution programme did not fully achieve its primary goals of employment creation and redistribution, although a period of economic growth (2002-2006) did follow the first phase of its implementation. This led to a rethink and re-evaluation of economic policy, particularly after the global financial crisis (2007-2009). The first "rethink" led to the adoption of the Accelerated and Shared Growth Initiative for South Africa (AsgiSA). This shift is regarded by some analysts as an economic transition period

from GEAR to a more developmentalist and interventionist policy, but is, in fact, characterised by continuity and is in line with the World Bank's post-Washington consensus thinking. This period is also characterised by internal tensions within the ANC and the leadership struggle between Jacob Zuma and Thabo Mbeki (the incumbent president and architect of GEAR), Zuma's victory was regarded as a victory for the left, but was followed by minor concessions and more continuity in policy, notwithstanding the launching of the NEGP in 2011 which spells out some goals for democratising and restructuring the economy.

The study concludes that neoliberalism had a unique influence on economic policy formulation in South Africa even though it was not a pure reflection of neoliberal policies. Economic policy formulation in South Africa has undergone constant change and adaptation and reflects the shifting balance of power between the major social forces related to production and finance in the country. At the rhetorical level, policy seems to be moving in the direction of a democratic developmental state and this needs to be viewed within the context of the circumstances which led to the development of the RDP, GEAR and the NEGP.

Opsomming

Die tesis beskryf die ontwikkeling van neoliberalisme binne die globale konteks en verduidelik hoe hierdie ideologie ekonomiese beleidformulering in Suid-Afrika beïnvloed het. Ekonomiese beleid vanaf die Herkonstruksie en Ontwikkeling-program (HOP), die Groei, Indiensneming en Herverspreiding-program (GIEH) en die Nuwe Ekonomiese Groei-pad (NEGP) word geanaliseer binne die tydsbestek vanaf 1996-2011, ten einde te bepaal hoe en of neoliberalisme 'n impak op beleidsformulering in die land gehad het.

Die ontwikkeling van neoliberale denke word histories beskryf ten einde te illustreer hoe dit, op die wêreld-orde vlak, die dominante ideologiese raamwerk vir ekonomiese beleid geword het. Hierdie proses was afhanklik van 'n aantal duidelik lynverwante fases wat nagespoor word op die kontinuum van sosiale, institusionele en idees dimensies. Die vorming van die Mont Pelerin Stigting, die ontwikkeling van die na-oorlogse (WWII) ekonomiese orde en die ontwikkeling en implementering van die Washington-konsensus is belangrike aspekte van die bou van 'n ideologiese alternatief vir Keynesianisme wat oor ongeveer 25 jaar plaasgevind het. Die rasionaal onderliggend aan neoliberalisme en daarmee gepaardgaande beleid word sterk gemotiveer deur die aannames van privaat eiendomsregte, deregulering van handel, finansies en produksie en 'n staatsvorm wat mark-dominante beleid fasiliteer.

Neoliberalisme het tydens die 1970s and 1980s prominent geword. Tydens hierdie periode is van buite en van binne toenemende druk op die *apartheid* regime geplaas om meer mark-georiënteerde en neoliberale beleidsveranderinge te implementeer. Dit is veral tydens die 1980s dat dit al hoe duideliker geword het dat Suid-Afrika se isolasie in 'n ekonomies globaliserende wêreld nie meer haalbaar was nie. Ten tye van die ontbanning van die ANC en die vrylating van Nelson Mandela in 1990, het die ANC nie 'n duidelik geformuleerde ekonomiese program en beleid gehad nie. Teen 1994, het neoliberale denke geleidelik in invloed toegeneem onder ANC leiers en beleidmakers, en na die eerste demokratiese verkiesing, het dit voorgekom asof dit goed gevestig was, met nietemin belangrike plaaslike variasies en onderskeibare kenmerke.

Die GIEH, wat as die amptelike vervatting van neoliberale ekonomiese beleid beskou kan word, het nie ten volle sy primêre doelwitte van werkskepping en herverspreiding bereik nie, alhoewel 'n periode van ekonomiese groei (2002-2006) wel gevolg het na die eerste fase van dié beleid se implementering. Dit het tot 'n herbeskouing en herevaluering gelei, veral na die

globale finansiële krisies (2007-2009). Die eerste “herformulering” van beleid het gelei tot die aanname van die Versnelde en Gedeelde Groei-inisiatief vir Suid-Afrika (VGGISA). Hierdie ontwikkeling is deur sommige waarnemers beskou as ’n ekonomiese oorgang van GIEH na ’n meer ontwikkelingsgerigte en intervensionistiese staat, maar is, in der waarheid, gekenmerk deur kontinuïteit en was in pas met die post-Washington konsensus beleid van die Wêreld Bank. Hierdie periode is ook noemenswaardig vir interne spanninge binne die ANC en die leierskaps-stryd tussen Jacob Zuma en Thabo Mbeki (die sittende president en argitek van GIEH). Zuma se oorwinning is beskou as ’n oorwinning vir die linksgesindes in die Drieparty Alliansie (ANC, COSATU en SACP), maar is gevolg deur klein toegewings en meer kontinuïteit in ekonomiese beleid. Dit, nieteenstaande die feit dat die NEGP in 2011 lanseer is, met as onderbou die demokratisering en herstrukturering van die ekonomie.

Die studie kom tot die gevolgtrekking dat neoliberalisme ’n unieke invloed op ekonomiese beleidsformulering in Suid-Afrika gehad het, selfs al was dit nie ’n suiwer weerspieëling van hierdie denkrigting nie. Ekonomiese beleidsformulering ondergaan voortdurend verandering en aanpassing en weerspieël veranderinge in magsverskuiwinge tussen die vernaamste sosiale magte verwant aan produksie en finansies in die land. Op die retoriese vlak, skyn dit asof beleid besig is om te verander in die rigting van ’n demokratiese ontwikkelings-staat en dit moet gesien word binne die konteks van die omstandighede wat gelei het tot die ontwikkeling van die HOP, GIEH en NEGP.

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Table of Contents

Chapter 1: Introduction	1
1.1 Background and motivation	1
1.2 Problem Statement	7
1.3 Research aims	7
1.4 Research Design and Methodology	8
1.5 Chapter Outline	10
Chapter 2: Historical and Theoretical Overview of Neoliberalism	11
2.1 Introduction	11
2.2 Perspective on the concept of liberalism	12
2.3 The Mont Pelerin Society and role of think tanks in the promotion of Neoliberalism	14
2.4 The post-Second World War economic order: the rise and fall of embedded liberalism	16
2.4.1 Embedded liberalism and the state market compromise	16
2.4.2 The collapse of the embedded liberalism compromise	19
2.5 The emergence of the neoliberal political consensus	21
2.6 Neoliberal hegemony, Washington and post-Washington Consensus	25
2.7 The rationale behind the neoliberal state and neoliberal growth approaches	29
2.8 Neoliberalism and alternative economic strategies	31
2.9 Conclusion	32
Chapter 3: South Africa and Neoliberal Convergence	34
3.1 Introduction	34
3.2 South Africa in a changing world order	34
3.2.1 The end of apartheid and demands for neoliberal reform	34
3.2.2 ANC ideology versus the logic of globalisation	37
3.3 The RDP and economic path chosen by the ANC government	41
3.4 Balance of power between business and labour	43
3.5 The main focus points of the GEAR macroeconomic strategy	47
3.6 The limitations of GEAR	49
3.7 The role of the state	51
3.8 The ANC government and first decade of post-apartheid economic reforms	54
3.9 Conclusion	55

Chapter 4: Economic Policy and Discontent in South Africa	56
4.1 Introduction	56
4.2 The partial failure of GEAR and shifts in economic policy formulation in South Africa	56
4.3 The state and the dual economy problem	60
4.4 The rise of social movements and social discontent in post-apartheid South Africa	63
4.5 Zuma versus Mbeki and internal struggles within the tripartite alliance	67
4.6 The New Economic Growth Path, National Development Plan and ANC discussions of a ‘second transition’: A Shift in Economic Policy?	72
4.7 Conclusion	77
Chapter 5: Conclusion	78
Bibliography	84

List of Tables

Table 2.1: Continuities/Discontinuities between Cold War and Neoliberal Globalization	23
Table 3.1: GEAR prediction versus actual performance	51

List of Abbreviations and Acronyms

AEC:	Anti-Eviction Campaign
AIDS:	Acquired Immunodeficiency Syndrome
ANC:	African National Congress
ARV:	Anti-Retro Viral
AsgiSA:	Accelerated and Shared Growth Initiative for South Africa
AZT:	Azidothymidine
BEE:	Black Economic Empowerment
CCG	Concerned Citizens Group
CEE:	Central-East European states
CME:	Coordinated Market Economies
COPE:	Congress of the People
COSATU:	Congress of South African Trade Unions
EU:	European Union
FDI:	Foreign Direct Investment
GATT:	General Agreement on Tariffs and Trade
GEAR:	Growth Employment and Redistribution
GNU:	Government of National Unity
HIPC:	Heavily Indebted Poor Countries
HIV:	Human Immunodeficiency Virus
IFIs:	International Financial Institutions
IFP:	Inkatha Freedom Party
IMF:	International Monetary Fund
IPE:	International Political Economy
ISI:	Import Substitution Industrialisation
LME:	Liberalised Market Economies
LMP:	Landless People's Movement
MEC:	Minerals-Energy Complex
MERG:	Macro Economic Research Group
MIIU:	Municipal Infrastructure Investment Unit
MPS:	Mont Pelerin Society

NDP:	National Development Plan
NEC:	National Executive Committee
NEM:	Restructuring of the South African Economy: A Normative Model Approach
NEGP:	New Economic Growth Path
NEPAD:	The New Partnership for Africa's Development
NIE:	New Institutional Economic ideas
NPC:	National Planning Commission
NP:	National Party
RDP:	Reconstruction and Development Programme
SACP:	South African Communist Party
SECC:	Soweto Electricity Crisis Committee
TAC:	Treatment Action Campaign
UK:	United Kingdom
UN:	United Nations
USA:	United States of America

Chapter 1

Introduction

1.1 Background and motivation

The aim of this research is to analyse and describe the development of neoliberalism globally and how this ideology impacted on policymaking in post-*apartheid* South Africa with regard to the shift that took place from Growth Employment and Redistribution (GEAR) (1996) to the New Economic Growth Path (NEGP) (2010) in the timeframe 1990 up to 2011.

The implications of globalisation on national variations of capitalism have become increasingly debated. Neoliberal globalisation has become a distinct historical phase of capitalism and the global economic order. According to Cerny *et al* (2005), since the collapse of the Soviet Union ‘varieties of capitalism’ can be termed as ‘varieties of neoliberalism’. It must however be noted that neoliberalism as an ideology did not just emerge from a historical or political vacuum. The establishment of neoliberalism as an ideology has been influenced by various social forces, institutions and intellectual agents and an array of role players in specific historical contexts (Taylor and Williams, 2000: 22).

The post-Cold War phase of neoliberal globalisation can be traced back to the 1970s crisis in global capitalism. The slower rates of growth, high inflation and recession around the world led to the decision to sever the link between the gold/dollar standard and fixed exchange rate system. In August 1971 Nixon imposed a 90 day wage and price freeze and also ended the convertibility between the US dollar and gold (Cerny, 2004: 5). This eventually led to the international collapse of the Bretton Woods system or at least the part maintaining the gold exchange standard. The transition from the dollar-exchange standard to a pure dollar standard strengthened the position of the US dollar as a currency. A majority of states held a great bulk of foreign currency reserves in dollars, incorporating it in the US financial system (Konings, 2005: 200). This laid the foundation for the liberalisation of finance and changes in US economic policy, which led to an increase in lending to the developing world in the 1970s. This external lending of money persisted during the debt crisis in the 1980s (Kiely, 2005: 95). The post-Cold War phase of neoliberal hegemony and globalisation thus is a product of the transition from Keynesian embedded liberalism to neoliberal capitalism in the mid-1970s.¹

¹ The post-Second World War international order or ‘embedded liberalism’ as termed by John Ruggie (1982) was based on a commitment to long term free trade, which was mainly or largely paid for in international dollars. At national level space was left for the management of domestic economies, through direct

With its manifestation in the 1980s under Ronald Reagan in the United States of America (USA) and Margaret Thatcher in the United Kingdom (UK), the basic contention with regard to neoliberal or orthodox economic policy was that states should leave the economy to the efficiencies of market forces. Within this context state intervention should be restricted through the processes of privatisation, deregulation and liberalisation, thus freeing the market forces from state restrictions. Economic policies implemented during the Thatcher and Reagan reign later influenced the economic orthodoxy that guided the policies associated with International Financial Institutions (IFIs) such as the International Monetary Fund (IMF) and World Bank. These institutions turned neoliberalism into a global policy via structural adjustment programmes and the Washington Consensus (Kiely, 2005: 95).

Variations of capitalism have been established in models such as the Anglo American, East Asian and European variants. The first ‘shock therapy’ phase, also termed the ‘Washington Consensus’ phase of neoliberal globalisation, was characterised by focusing on privatising public services and adjusting economic policies without regard to social consequences. The shock therapy phase and neoliberal agenda spread during the time of the Washington Consensus, called for trade and financial liberalisation, privatisation, deregulation, openness to foreign direct investment, a competitive exchange rate, fiscal discipline, lower taxes and less government intervention (Tabb, 2003: 27). The implementation of these neoliberal development goals led to massive reversals of living standards in especially post-communist countries in Eastern Europe. The rationale was that mobile foreign capital could be attracted leading to rapid development, but instead open competition led to massive social disruption and unproductive economic development (Kiely, 2005: 99).

intervention or state-managed capitalist development (Kiely, 2005: 92). State-managed capitalist development led to industrial development in some countries in the developing world and almost full employment and ‘welfare states’ in the developed (first) world. Because of the economic growth and increased social improvement in the post-Second World War international order, some scholars have called it the Golden Age of capitalism. ‘Neoliberal capitalism’ in contradiction to embedded liberalism is focused on the establishment of institutions and practices that are market-led and market-based, with focus on deregulation of state intervention and the culture of the Keynesian welfare state (Cerny, 2004: 4). Within this context governments and international institutions should aim to achieve and establish market friendly attitudes and practices such as privatising social and public services, promotion of international competitiveness, and establishment of deregulation and liberalisation of the economy (Cerny, 2004: 4).

Bohle and Greskovits (2007: 445) identified that the three capitalist models emerging from post-communist transition in Central-East European (CEE) states could be broadly termed as the 'neoliberal' type in the Baltic states (Estonia, Latvia, Lithuania), an 'embedded neoliberal' type in the Visegrad (Czech Republic, Hungary, Poland, Slovak Republic) states and a 'neocorporatist' type in Slovenia (Bohle and Greskovits, 2007: 445). Neoliberalism has been implemented more fervently in the Baltic states than the Visegrad states. The Visegrad group embarked on a different route with some limited social protection measures. For example economic reformers in Poland anticipated that 'shock therapy' reforms could create problems for industrial workers and the rural population. Compensation measures such as unemployment benefits, minimum wage regulations and early retirement schemes were thus established (Bohle and Greskovits, 2007: 454). Slovenia's neocorporatist' government implemented policies characterised by an institutionalised balance between conforming to market principles and social protection, with the objective of creating some acceptance between business, labour and other social groups, thus all the role players working together to form a balance between the market, labour and the state (Bohle and Greskovits, 2007: 446).

The post-Cold War phase of neoliberal globalisation was exposed to reform when the 'shock therapy' phase ended in the mid-1990s, entering a period termed the post-Washington Consensus phase. Attention shifted towards the promotion of state institutional reforms by implementing domestic policies to ensure greater resilience to competitive pressures and global economic trauma within the marketplace enabling markets to work more effectively within the neoliberal paradigm, taking social issues and considerations into account and establishing social safety net programmes as well as supporting domestic industries, thus providing the state with the responsibility to facilitate and maintain market forces more efficiently (Kiely, 2005: 100). As observed by Hanson and Hentz (1999: 470), neoliberalism expanded across the developing world since the 1980s and early 1990s, structural adjustment strategies envisioned broad consensus for targeting low inflation, balanced budgets, currency convertibility, export-oriented production, and privatisation. By the late 1990 at least 29 sub-Saharan African countries had undergone structural adjustment. Neoliberal transitions have transformed the material and economic basis of countries as diverse as Brazil, Britain, India, Poland, South Africa, South Korea, the US and Zambia, each restructuring and reforming recurring along distinct lines (Marais, 2011: 135).

Neoliberal economic policies dominated economic decision making in various countries. Neoliberalism became hegemonic during its ‘shock therapy’ phase after the fall of the socialist bloc during the early 1990s. Ultimately neoliberalism has also been shaped and reformed into different variations. This was as a result of distinct historical features and development in different countries worldwide. The same holds true for the South Africa and its transition from *apartheid* to democracy. This thesis will focus on how economic reforms in South Africa were influenced by the neoliberal paradigm considering how the African National Congress (ANC) incorporated economic thinking resembling neoliberal principles, but also how these principles developed into policy objectives. It is important to keep in mind that the ANC had its own objectives for a post-*apartheid* South African economy. Preceding the neoliberal intellectual onslaught that would significantly influence thinking of the ANC economic policy formulators, a central idea was the ‘growth through redistribution’ idea. These formulators believed that economic growth could be achieved by meeting the basic needs of the people and implementing a redistribution of wealth or income policy. This would subsequently lead to increases in employment, demand and production (Taylor and Williams, 2000: 25).

South Africa changed from an institutionalised racist *apartheid* state to a democracy from the late 1980s to 1994 culminating in a universally franchised democracy with the April 1994 general elections. The ANC won the election with 63,1% of the vote (Marais, 2011: 376). South Africa was incorporated into a world characterised by neoliberal economic globalisation. Cerny *et al* (2005) identified this as within a period where a more complex and globally interlinked world order was characterised by the triumph of the western liberal democracies over communism. Francis Fukuyama (1989) termed this period *The End of History* and stated that the triumph of the western economic reforms over socialism and communism were instrumental in the depletion of any viable systematic alternatives to that of Western liberalism (Fukuyama, 1989). Cerny *et al* (2005: 7) refers to this as the fourth phase of globalisation since the post-Second World War economic order. This is the start of a more complex form of neoliberal hegemony and market dominated orthodoxy. It was in fact not only a triumph for democracy, but a victory for neoliberal ideology as well.

Historically during the Cold War the ANC and the Congress Alliance did not align themselves with Western liberal democracies, but adhered to the ideologies of socialism and the economic central planning of communist Soviet Russia. With the unbanning in 1990 of

the ANC, the organisation did not have clearly formulated economic policies. The organisation relied on its commitment to the principles of the 1955 Freedom Charter. Reflected by the Freedom Charter, the ideals established by the ANC for a democratic South Africa envisioned a country of equality for all people with an objective of establishing policies focusing on social security such as unemployment benefits, health insurance and social pensions (Visser, 2009: 229). This led to the involvement of the Congress of South African Trade Unions (COSATU) in the formulation of economic policy. During the height of political and social unrest in South Africa, COSATU was formed in Durban in November 1985 (Visser, 2009: 230). This followed unity talks between competing unions and federations. With its inception COSATU had a total membership of 450 000, but membership grew to more than 1, 2 million by 1990. During the late 1980s COSATU played a leading role in the internal anti-*apartheid* movement and struggle against the *apartheid* government. COSATU organised numerous wage strikes and general strikes in factories and towns across South Africa and mobilised huge support for the trade union.

COSATU entered into negotiations with the ANC and the South African Communist Party (SACP) and a new alliance, the tripartite alliance, was formed between the three organisations. The members of the alliance agreed they would work for the rights of the working class and decided on the policies and programmes the ANC would adopt once it was in power. However the unbanning of the ANC in 1990 and its success at the 1994 elections enabled the ANC to dominate the tripartite alliance (Webster and Buhlungu, 2004: 236). The ANC government adopted COSATU's Reconstruction and Development Programme (RDP) during 1994 as its main economic programme for the new democratic South Africa. COSATU backed the ANC during the elections and this was crucial for the ANC in securing the 1994 election victory (Visser, 2009: 231). The RDP economic programme articulated the ideals for a post-*apartheid* South Africa through a macroeconomic framework using the Keynesian paradigm, focusing on economic growth domestically, as well as development, reconstruction and redistribution via direct intervention from government and state institutions. The RDP programme focused on directly improving conditions in the country. However globalisation or neoliberal globalisation differed from the economic aims of the RDP or social policies in directly improving material conditions, implementing the redistribution of income, heavily progressive taxes, minimum wages and land reform. Programmes to meet the immediate and basic needs of the disadvantaged section of society would involve the government directly or through regulatory intervention in production via

state-owned enterprises. This would inhibit the benefits of the free market or market orthodoxy. Such a programme, it was claimed, would alienate private investors, foreign capital and foreign investment.

In the white paper of September 1994 a policy formulation move away from the original goals of the RDP programme was set out (Adelzadeh, 1996: 4). South Africa was moving towards a more neoliberal oriented framework supported by big business, the IMF and World Bank. The RDP's main goal of redistribution was reviewed and the government's role was reduced to managing the transformation with less direct intervention. In June 1996 the Growth, Employment and Redistribution (GEAR) macroeconomic framework or strategy was accepted. Economic policies implemented through programmes were defined by classic neoliberal principles: the importance of government expenditure, low fiscal deficits, low inflation, privatisation, deregulation, minimal state intervention and the importance of foreign capital inflow for economic development and subsequent economic growth were important (Habib, 2009: 149). The introduction of GEAR did not support the historical ideals of the ANC and alienated COSATU and the SACP.

The newly elected ANC government was in a difficult position. During their election campaign the ANC promised that they would provide as a welfare state to the historically marginalised section of society. This was done by promises of better housing, better jobs for previously disadvantaged people, redistribution of wealth, better education and better health services to all people that were excluded under *apartheid*. In reality the ANC had to align with international economic reforms and thinking, dominated by neoliberal orthodoxy and *The End of History* concept.

Economic policy in South Africa was reflected by two very different economic strategies: The documents entitled "The Restructuring of the South African Economy: A Normative Model Approach" (NEM) and the Macroeconomic Research Group (MERG) report (Habib and Padayachee, 2000: 250). The NEM document, initiated by the National Party (NP) as a blueprint for post-*apartheid* South Africa, reflected the interests of business and neoliberal/market orthodoxy with emphasis on economic growth, minimal state intervention, privatisation, deregulation, wage restraint, and low levels of inflation. The MERG report, in contradiction to the NEM document, focused on more welfare orientated policies. It was also in favour of Keynesian type state interventionism attempting to advance the interests of the section of society marginalised during *apartheid* (Habib and Padayachee, 2000: 250). The

MERG report recommended the break-up of large monopolies in the private sector. Equality could be reached by regulating businesses to reduce production costs and the establishment of minimum wages and other redistributive measures leading to an increase in the living standards of the majority of South Africans (Habib and Padayachee, 2000: 250). The implementation of the MERG document was not in line with the logic of globalisation, more specifically neoliberal globalisation (MacEwan, 1999: 7).

Taking this overview into account it should be clear that further investigation must be undertaken to understand the global nature of neoliberalism and to what extent this concept was and is influencing economic policy reforms within the South African context.

1.2 Problem Statement

The intention of this research is to establish whether and how economic reform in South Africa was influenced by neoliberalism with particular reference to the implementation of the RDP, GEAR and eventually NEGP programmes.

1.3 Research aims

The aims of this thesis will be to observe and analyse how and to what extent the South African economy relates to the neoliberal paradigm and why the ANC government decided to follow an economic path in line with neoliberal economic ideals. The short lived RDP programme was characterised by focusing on majority needs whilst on the other hand there was an ostensible acceptance and affirmation of neoliberal policies (Deegan, 2001: 118). The GEAR economic programme embraced a market oriented framework, whilst still focusing on 'welfare' such as the creation of employment and social security with some elements of direct state intervention. However integration into the global market placed pressure on welfare objectives within the ANC economic decision making. This was stated by President Mandela: "It is true that we should not forget where we come from, but we must be careful not to be held hostage by the past, to the detriment of harnessing new energies of progress which are unleashed by the new situation" (Mandela quoted in Deegan, 2001: 125).

The focus of this thesis is firstly aimed at placing economic policies, implemented by the ANC government since 1994, within the geopolitical economic context of the time. It will be important to give a descriptive overview of the global political economy since the end of the Second World War. The development and shifts in mainstream capitalist economic

perspectives will particularly indicate the shift from the post-Second World War embedded liberal era, dominated by the Keynesian welfare state principles, to the acceptance of more neoliberal, free market driven policies that became more dominant during the 1980s and 1990s. This period is identified by Cerny *et al* (2005) as the time of neoliberal revival and more complex forms of neoliberal hegemony of the early 1990s.

The study will try to explain to what extent the ANC converted to the neoliberal hegemony, especially dominant during the transition period of democracy in South Africa. This thesis will not only focus on how the theoretical foundations of market orthodoxy reflect within economic policies of the ANC government. It will aim at establishing a broader perspective, with regard to problems faced in the South African political economy. For this reason it will be important to look at problems faced by the ANC government with regard to unemployment, social issues, inequality and the 'dual nation' or 'two economies' problem. The thesis will explain how South Africa's historical context, in particular its mineral-energy complex (MEC)² and also historical inequality as a result of *apartheid* policies has influenced economic development.

The thesis will thus aim to first establish how South Africa's political economy was influenced by international standards since the early 1950s up to the early 1990s. Furthermore the South African democratic transition will be considered within this timeframe taking into account international pressure as reflected by national and international business, the IMF, the World Bank and even the NP. The study will also analyse internal struggles faced by the ANC, especially with regard to economic policies and historical agendas.

1.4 Research Design and Methodology

A qualitative approach to this thesis was undertaken. The historical approach method was chosen as a process of describing, analysing and interpreting the past by using sources that relate to neoliberalism. This research will include a description of events and the subsequent analysis of these events. The development of neoliberalism over time and how this impacted policy formulation in South Africa will be considered.

² The MEC as a core set of sectors includes mining and electricity, and also manufacturing subsectors such as chemicals, non-metallic mineral products, iron and steel and non-ferrous metal (not containing high amounts of iron) basic industries (Bell and Farrell, 1997: 592). Mining has played an enormous role in the development of South Africa's modern economic history. Fine and Rustomjee have identified the MEC (focus on mining, mineral processing and production of energy) as dominating the South African political economy, blocking economic integration between sectors and diversification of the economy (Carmody, 2002: 267).

Research for this thesis was done through the study of secondary sources via the analysis of academic journals, relevant books and also to a lesser extent internet articles and publications. ANC policy documents and discussion documents will also be essential to this thesis. This thesis is an empirical study and will be dealt with in a descriptive and explanatory manner.

The first part of the thesis will be descriptive and the conceptualisation of neoliberalism will be analysed by giving a historical overview of the concept and its development. The historical shift during the mid-1970s recession in mainstream economic thinking is an important point to take note of especially with regard to the influence it had globally as well as the gradual spread into the periphery. The second part of the thesis will be descriptive and explanatory in nature looking at how neoliberalism has been implemented and shaped within the South African context. Chapter 3 and 4 will be analysed in a chronological order, mainly in the timeframe from the democratic transition period in the early 1990s up to 2011.

Neoliberal consensus and policies differ from country to country because of the configuration of existing domestic institutions and practices, the influence of interest groups both national and international and the impact and interpenetration of growing international and transnational public and mixed private/public sectors (Cerny *et al*: 2005, 14). The literature analysed for the study is secondary and no information will be gathered through direct observations or interviews. The independent variable in this research will be neoliberal ideology and the dependent variable will be the economic reform programmes in South Africa.

The time dimension focusing on South Africa will be the 1994 transition period and build up to the GEAR macroeconomic strategy introduced in June 1996 by the Department of Finance. The maintenance of the GEAR strategy and neoliberal consensus from 1996-1999 is then analysed. The period from 1999 to 2004-2005 was a period of social discontent because of lack of service delivery and the GEAR programme not addressing problems in South Africa's 'second economy'. Mbeki's visualisation of South Africa as a developmental state and implementation of the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) framework would fall in this timeframe. From 2005-2008 a build up to the Polokwane conference and the Mbeki versus Zuma leadership battle ensued (tensions and shifting coalitions within the ANC) and finally, 2010-2011 the establishment of the NEGP framework.

1.5 Chapter Outline

In the second chapter of the study the concept of neoliberalism and the neoliberal state will be discussed. The historical background will be discussed and the shift in the capitalist order from embedded liberalism to neoliberalism will be indicated. Background analysis will be done and the key elements of the neoliberal state will be introduced. Chapter three will be the analysis and discussion of neoliberal convergence within South Africa, looking at how neoliberalism was introduced in South Africa and what economic policies were the driving forces behind it. The RDP and GEAR economic policies will be discussed in this chapter. Chapter four focuses on the build up to the ANC national conference in Polokwane and more attention will be given to tensions arising within the country against Mbeki's political decision making and the ANC's post-*apartheid* economic policies. The influence of neoliberalism within the context of the political economy of South Africa will be analysed and attention will be given to mass mobilisation, social discontent and economic reformers opposing a market-led approach and how these reformers planned to establish a different approach. The relationship between the state and civil society will be exemplified in this chapter, as well as the role of the ANC government's historical tripartite allies such as COSATU and the SACP. The concluding chapter will then summarise the findings and tie together the analysis of chapter 3 and 4. It is important to see whether a shift occurred regarding economic policy formulation within the ANC, for instance if the NEGP framework is different to the goals set by GEAR.

Chapter 2

Historical and Theoretical Overview of Neoliberalism

2.1 Introduction

This chapter will provide an historical overview as to how neoliberal thinking and the market orientated approach came to dominate the global economic order. It will give a descriptive overview of the four important phases that led to the world economic order as it is today. The chapter will start by looking at some of the key concepts with regard to neoliberalism and liberalism, focusing on how the concepts have formed and how variations within the concept of liberalism have established itself. The following section will focus on the Mont Pelerin Society (MPS) and the role of think tanks in the spread of neoliberalism in especially the United States. This section of the chapter will thus be a brief overview of the intellectual establishment of neoliberalism before its influence on mainstream economics since the 1970s. The next section of the chapter will give a historical account of the international economic order of the second half of the 20th century. It will describe the post-Second World War economic order of embedded liberalism and its demise in the 1970s. It will then describe the rise of neoliberalism and the Anglo American model in the late 1970s and early 1980s. In this section attention will also be given to financial institutions that still play an important role in the spread of the neoliberal agenda such as the IMF and World Bank.

The last phase of globalisation and the beginning of a more complex global order came with the collapse of the Soviet Union in the 1990s. Section 6 and the following section of this chapter will focus on neoliberalism and its hegemonic role in the post-Cold War world order. It will give an overview of the Washington Consensus and post-Washington Consensus and its relevance to the neoliberal agenda. The last part in this chapter will be a summary of the rationale behind neoliberalism and the ‘utopianism’ of neoliberalism (this section will be an overview with more focus on neoliberalism as a system of thought). There will also be some indication as to the contradictions of neoliberal growth policies and a brief indication of alternatives. The chapter will conclude by briefly discussing the definition of neoliberalism and its development since the neoliberal revival during the 1970s till more recent times.

2.2 Perspective on the concept of liberalism

Liberalism has developed into a complex set of meanings and ideological paradigms since the 18th century. The notion of freedom and centrality of the individual rather than a holistic conception of society is fundamental to the classic liberal mode of thinking. Classic liberalism is associated with free thinking and a critical mindset. The concept of liberalism in this sense can refer to the support of civil freedoms and human rights and implementation of liberal democratic political institutions away from collectivist ideologies (but specifically in the case of the enlightenment, against the feudal order and monarchy). Economic Liberalism is traditionally related to or associated with market capitalism and a combination of *laissez faire* economics and pro-competitive economic regulation (Cerny, 2004: 2).

In the age of enlightenment ideas were formulated by philosophical and academic intellectuals like Voltaire, Locke and Hume indicating the relation between politics, commerce and religion (Gay, 1966: 103). Classic liberal market driven thinking saw its genesis in the age of enlightenment (originating about 1650 to 1700) and one of the most celebrated economists of the day was Adam Smith. Ideas associated with liberalism were established in the 18th century specifically in continental Europe. It would spread to the rest of the world and influence the world order of the future on a revolutionary and evolutionary scale.

Within continental Europe liberalism is seen as a political philosophy of the capitalist right, but because of its emphasis on the individualistic core, liberalism is in conflict with other radical right wing ideologies such as fascism, elitism and certain forms of social Catholicism of the late 19th and 20th centuries (Cerny, 2004: 2). In the United States 19th century liberalism or 'classic liberalism' is mostly associated with conservatism and in contrast to the ideals of 'classic liberalism'. Liberalism in the United States is associated with the moderate centre left, where conservatism is leaning towards 'classic liberalism'. American liberalism is thus closer to the social democratic variant of continental Europe. American conservatism on the other hand is linked to the classic 19th century liberalism. Neoconservatives have demonised liberalism within the American context as a left wing approach to the political economy. Leaders like W. Wilson, F. D. Roosevelt and J. F. Kennedy were associated with this 'American liberal' approach (Cerny, 2004: 2). In the United Kingdom, liberalism is associated with the approach of the Liberal Democratic Party emphasising the best elements of both conservatism and social democracy with recognition to the role of the individual.

Moving away from a national focus of the concept of liberalism, focus and variations regarding the concept within the international context will now be given. The concepts liberal internationalism, international economic liberalism and neoliberalism will now be introduced.

Liberal internationalism is a legacy of Woodrow Wilson's plans for an international institutional order. It was implemented practically by the establishment of organisations such as the League of Nations in the interwar period (1918-1939) and the United Nations (UN) towards the end of the Second World War (Cerny, 2004: 3). The provision of collective security, international law (based on liberal ideals) and an institutional platform for sovereign states fall within the concept of liberal internationalism. Liberal internationalism established the framework for multilateral organisations following the end of the Second World War. International economic liberalism would be included in this new multilateral framework established since the post war era.

International economic liberalism, in line with liberal internationalism, was established by the Bretton Woods system of the post-Second World War economic order. Neoliberal institutionalism is a term that was introduced by R. O. Keohane as a school of thought in the study of international relations. Neoliberal institutionalism establishes that the development of the post-Second World War economic order could be characterised by the *ad hoc* proliferation of international regimes resolving their issues through institutions like the UN, General Agreement on Tariffs and Trade (GATT) the IMF and other specialised organisations (Cerny, 2004: 3). Neoliberal institutionalism however is more closely related to the traditions of liberal internationalism than those of economic neoliberalism or neoliberal economic ideology.

For the purpose of this thesis economic neoliberalism, as derived from the European concept of liberalism and classic liberalism, will be analysed in more detail. The fundamental principles of neoliberal theory were established with the emergence of liberal philosophy and economic principles during the age of enlightenment (Saad-Filho and Johnston, 2005: 1). Within the economic neoliberal framework domestic and international politics should focus on providing or improving the conditions for market efficiency. In mainstream economics and neoclassical theory the market is seen as the main proponent of economic and social behaviour (Coates, 2005: 7). Ever since the late 1970s neoliberalism has steadily become more hegemonic but established itself as triumphant after the collapse of the Berlin Wall in 1989 and fall of the Soviet Union in 1991, entering a new period of global complexity.

2.3 The Mont Pelerin Society and role of think tanks in the promotion of Neoliberalism

The MPS was established at a conference which was organized by Friedrich von Hayek on 10 April 1947. Some of the founders and important members of the society were Ludwig von Mises, the economist Milton Friedman and Karl Popper (Harvey, 2005: 20). Members of the MPS were committed to classic liberal principles such as personal freedom and free market capitalism or economic liberalism as implemented in the second half in the 19th century. There was also some similarity with classic economic theories and principles of the 18th century (Harvey, 2005: 20). The establishment of the MPS was during a time of political and social acceptance of the Keynesian rules in the international political and economic order.

The MPS was established in 1947 but the term neoliberalism, as used in political economy, was conceptualised before and during the Second World War. Hayek and other liberal intellectuals devoted themselves to finding a strategy to counter and beat ‘totalitarianism’ and the threat it posed to liberalism and the liberal world order. The answer to this strategy for Hayek laid in patient and rigorous scientific work in the revision of liberal theory. This revised liberalism was termed *neoliberalism* in 1938. (Plehwe and Walpen, 2006: 31).

Hayek made the following statement in 1949: “What we lack is liberal Utopia, a program which seems neither a mere defence of things as they are nor a diluted kind of socialism, but truly liberal radicalism which does not spare the susceptibilities of the mighty (including the trade unions), which is not too severely practical and which does not confine itself to what appears today as politically possible. ... The practical compromises they must leave to the politicians.” (Hayek (1949) quoted in Plehwe and Walpen, 2006: 33).

The MPS was a small group of intellectuals concentrating mainly on promoting and preserving decentralised governments worldwide as opposed to the state interventionist theories of the Keynesian doctrine (Weller and Singleton, 2006: 70). The Society’s perception was that the rise of totalitarian and authoritarian regimes during the interwar years was motivated by views that were developed and established denying all absolute moral standards, the questioning of the rule of law and the decline in the belief in private property and the competitive market, mainly because of the influence of the great depression of the late 1920s and 1930s. In the post war world order, freedom and democracy were under threat by “revolt of the masses” and the other great threat to ‘neoliberalism’ was an elite control of

capitalism because of the politicisation of economics (Weller and Singleton, 2006: 71). The MPS members were sceptical about the role of the state, but neoliberal intellectuals were not at the centre of decision making in the post war political economy. The capitalist centre was dominated by the influence of Keynesianism and social liberal conceptions of welfare capitalism.

The MPS was developed as an academic foundation to defend and promote a world order based upon open market principles in resistance to collectivism. It was established to facilitate intellectual exchange between neoliberal researchers and scholars, thus promoting ideals of free market policies around the globe (Weller and Singleton, 2006: 30). The society had an important role in the spread of international think tanks. In the 1950s Antony Fisher went to Hayek with the idea of promoting neoliberalism through think tanks in the United Kingdom (Plehwe and Walpen, 2006: 40). Fisher supplied the money to set up the *Institute of Economic Affairs* in London. The establishment of think tanks and academic societies in the United States like the *AEI*, *Cato*, *the Heritage Foundation* and *the Hoover Institution on War, Revolution and Peace*, became important in spreading and steering the elite control capacity of neoliberalism during the 1970s. Academic societies and think tanks had strong ties with the MPS. Gary Becker, MPS president from 1990 till 1992 as well as Milton Friedman, another MPS president from 1970 till 1972, had strong ties and connections with *the Hoover Institute*. Various other MPS members were part of think tanks promoting the neoliberal agenda especially during the Reagan and later Bush administrations (Weller and Singleton, 2006: 71).

Academic research networks have played a big role in spreading the neoliberal agenda. The *National Bureau of Economic Research* is an example of one of the influential academic networks, playing a role regarding economic policies. One of the network's intellectuals and also MPS member, Prof. Martin Feldstein was part of Pres. Reagan's council of economic advisors in the 1980s. Feldstein's influence on politics carried on and many of the people who studied under him became part of George W. Bush's economic team (Weller and Singleton, 2006: 72). Neoliberal ideas and policies were widely incorporated into government policy by academic thinkers and played a big role in the 1970s, a time of economic turmoil and the collapse of the post-Second World War embedded liberalism compromise. The Mont Pelerin Society's role was important in the development of a basic foundation for neoliberalism and helped in the shift of thinking towards a more 'advanced' liberal mode of

government (Hull, 2006: 154). The new form of liberalism that was promoted was characterised by the state setting the rules for the market to function in, and the market functioning in its own interest. It was not totally taking the state out of the economy but rather giving it a new role. Individual exchange and rights were seen as the most general of human engagements and the expansion of the post-war Keynesian welfare state was seen as an interruption of the natural process of the market (Albo, 2005: 68).

2.4 The post-Second World War economic order: the rise and fall of embedded liberalism

2.4.1 Embedded liberalism and the state market compromise

As stated by Wallerstein (2006: 75) the capitalist world economy has maintained itself, as any system does, by establishing equilibrium within the economy. If it deviates from the equilibrium, it is never restored immediately, but only if a certain amount of deviation from the norm or current order occurs. According to Wallerstein it never restores perfectly. He also states because the system requires deviations up to certain degree before triggering a counter movement, the result is that the capitalist world economy goes through cyclical rhythms of multiple kinds. Cerny, Menz and Soederberg (2005) established that the globalisation or cycles in the capitalist economy in the second half of the 20th century could be separated into four phases: The long boom from the late 1940s to the late 1960s, the recession of the 1970s, the early neoliberal revival of the 1980s and the more complex forms of neoliberal hegemony from the early 1990s (Cerny *et al*, 2005: 7). This section of the chapter will focus on the first two phases: the long boom from the late 1940s and the recession of the 1970s.

The long boom after the Second World War followed half a century where the International Political Economy (IPE) was dominated by the politics of national capitalism and prioritisation of domestic and autarchic (self-sufficiency-orientated) approaches to 'late industrialisation' and economic development (Cerny *et al*, 2005: 8). The Second World War played a role in stabilising and rescuing international capitalism from the Great Depression and pre-war economic recession. The war restored production levels, employment, productivity and profitability in the United States and after the war, the Marshall plan created appropriate conditions for the reconstruction of capitalism in Europe. Abundant labour supplies, technological progress, growth in mass consumption initiated the long boom of capitalism in the post war economic order (Lapavistas, 2005: 31). The majority of working people in the US and Western Europe had stable jobs. The rise of real wages in the 1950s and

1960s established the 'golden age' of capitalism. The restructuring of the state and international relations after the Second World War focused on a vision and purpose not to return to the conditions that threatened the capitalist order in the 1930s. There was a belief that capitalism and communism in its 'pure' or rawest forms had failed and the right blend of interaction between the state, market and democratic institutions were needed to guarantee peace, inclusion, well being and stability. Somehow the post war period needed to show change in the state society relationship and a change from the inter war period (Ruggie, 1982: 392).

The Bretton Woods system was the first example of a fully negotiated monetary order, focusing on establishing the rules for commercial and financial relations between major industrial countries. The Bretton Woods system was established with the objective to promote open international trade through GATT. The IMF was established as the international monetary system and economic development was promoted through the International Bank of Reconstruction and Development, known today as the World Bank (Cerny, 2004: 3). These institutions were important in the promotion of a new international political world order. The Bretton Woods system and international institutions such as the UN, World Bank and IMF were tasked with the purpose of promoting international relations and bringing stability to the post war world order. Free trade in goods was encouraged and a system of fixed exchange rates anchored by the US dollar's convertibility into gold at a fixed price was established at Bretton Woods in the mid-1940s (Harvey, 2005: 10). The embedded liberal economic order was multilateral in character, but not at national or domestic level with regard to economic policies. There was an encouragement of internal division of labour but governments maintained the role of capital controller (Ruggie, 1982: 399).

The role of the dollar as the global reserve currency helped with the expansion of US banks and corporations. With the US influence in the post war period through the Marshall plan, US corporations started expanding into the European financial market. The 1950s and 1960s saw the expansion of the dollar and extension of US financial relations abroad (Konings, 2005: 199). In the late 1960s, early 1970s the transition from the dollar exchange standard to a pure dollar standard reinforced the position of the US financial markets. The dollar's position was strengthened by the dominant position it achieved as the global reserve currency. The dominant position of the dollar meant that the majority of states would hold foreign currency reserves in dollars incorporating them into the US financial system (Konings, 2005: 200).

The rationale behind state intervention in the market and the Keynesian welfare capitalism can be found within the laws of aggregate demand and supply of the capitalist economic system. Within Keynesian economic theory aggregate demand falls short of aggregate supply and the market fails to clear on the demand side. The hoarding of money locks up purchasing power and this prevents the demand level of reaching the required level to eliminate stocks of unsold commodities (Lapavitsas, 2005: 32). This, through the Keynesian perspective, triggers unemployment. Protective government measures are needed at local level to boost public expenditure, cut taxes and lower interest rates to strengthen aggregate demand, reducing unemployment. Increased government spending in GDP and productive capacity under public ownership and welfare provision with regard to health, unemployment benefits, education and housing were key features of American style domestic liberalism and European style social democracy during the long boom period (Lapavitsas, 2005: 32). The post war long boom period saw trade union coverage rising to historical heights and the international expansion of social protection and regulation. The welfare state was still based on theories of neoclassical orthodoxy and the capitalist system, but it provided the state with a direct role within the market.

The role of the state was to focus on full employment, economic growth and the welfare of citizens. The state was given power to intervene with the market processes in achieving this welfare compromise. Modern tools for monetary policy (the control of interest rates) and fiscal policy (control of spending and taxes) were developed in the embedded liberal period (Palley, 2005: 21). Intervention in the business cycle to ensure full employment and a 'class compromise' between capital, labour and the state established state authority to actively intervene in industrial policies in setting standards for social wages and social welfare. The long boom period saw high rates of economic growth in the advanced capitalist countries during the 1950s and the 1960s, but its global reach was limited by the Soviet Union and socialist bloc. The compromise of embedded liberalism was never fully integrated or extended into the developing world and developing countries would only later be subject to orthodoxy and stabilisation plans of the IMF and World Bank (Ruggie, 1982: 413).

At international level the reduction of tariff protections and eventually convertibility of major currencies in an international political economy was promoted and started within the embedded liberalism phase. The embedded liberalism phase saw the development of US hegemony operating through international institutions established at Bretton Woods

(Lapavistas, 2005: 16). The long growth period was characterised by economic prosperity in the 1950s and 1960s. It was also an economic period aimed at promoting capitalism but with the necessary safety nets to prevent the occurrence of another Great Depression.

The post-Second World War international order or ‘embedded liberalism’ as termed by John Ruggie (1982) was based on a commitment to long term free trade, which was mainly or largely paid for in international dollars. At national level space was left for the management of domestic economies, through direct intervention or state-managed capitalist development (Kiely, 2005: 92). State-managed capitalist development led to industrial development in some countries in the developing world and almost full employment and ‘welfare states’ in the developed (first) world. From the 1950s to the late 1960s, there were advances in economic growth, increase in trade and output and a wider spread of social improvement (Kiely, 2005: 92). Because of the economic growth and increased social improvement in the post-Second World War international order, some scholars have called it the Golden Age of capitalism. By the late 1960s the embedded liberalism system was struggling and by the early 1970s it effectively collapsed. Attention will now shift to the second phase in the development of globalisation, the recession of the late 1960s and early 1970s.

2.4.2 The collapse of the embedded liberalism compromise

In the late 1960s the US support for the Bretton Woods ‘adjustable peg’ fixed exchange rate of the dollar started to dwindle. The US developed a chronic balance of payments deficit and this resulted in a dollar overhang which challenged the role of the dollar. The war in Vietnam exacerbated this challenge on the value of the dollar. A gradual shift started and the late 1960s early 1970s saw the removal of the dollars link to gold and a shift towards a floating exchange rate (Cerny *et al*, 2005: 9). The 1st oil crisis shock in 1973 - 1974 led to an increase of high unemployment and inflation levels in the capitalist developed countries. The crisis was exacerbated by increased public spending and government deficits. State economic intervention was not the answer to solving the crisis. In the mid-1970s profitability collapsed and the price system in developed countries was disrupted by rapid and persistent inflation problems (Lapavistas, 2005: 32).

A fiscal crisis developed and budgetary costs of social policies, public services, nationalised industries and bureaucracies grew faster than the tax base. In the developed capitalist countries it led to attempts by governments to increase the provision of services and

propositions to reduce tax rates. But aims to produce additional economic growth resulted in higher tax payments. The breakdown in the belief of a social partnership or 'neo corporatist' arrangement was another feature of the crisis in especially developed capitalist countries (Cerny, 2004: 5). The state, management, bureaucrats and labour relationship was blamed for creating 'stickiness' of wages and a slowdown in investment, leading to economic stagnation. The Bretton Woods system of fixed exchange rates backed by gold reserves fell into disarray and the part of the Bretton Woods system maintaining fixed exchange rates (gold exchange standard) and not the whole Bretton Woods system (not institutions) collapsed in 1971-1973 when the dollar's link to fixed exchange rates ended (Cerny, 2004: 5). The Yom Kippur War in 1973-1974 exacerbated the economic crisis, a time when oil prices saw a fourfold rise.

The oil crisis of 1973-1974 and 1979-1980 and the instability in other commodity markets made the sense of international economic instability worse. As the mid-1970s recession and crisis escalated, the inflation kept rising and interest rates kept going up. Government reflationary spending had less and less impact on growth and stability (Cerny *et al*, 2005: 9). Many third world countries saw hyper inflation, debt, bureaucratic expansion, crony capitalism and military coups. Some countries focused on Import Substitution Industrialisation (ISI), but others like Chile in 1973 went on different paths looking for other economic programmes or alternatives to solve economic problems.³ The mid-1970s was not yet seen as the era of globalisation but observers such as Robert Keohane and Joseph Nye began to write about the beginnings of a phase of 'complex interdependence' (Cerny *et al*, 2005: 9). Keynesian macroeconomic fine tuning could not prevent recession and failed to prevent stagflation. Countries, especially capitalist developed countries began to defect away from embedded liberalism seeking alternative routes to rescue their economies. This was the beginning for the third phase of globalisation as identified by Cerny, Menz and Soederberg (2005) the time of early neoliberal revival of the late 1970s and 1980s.

³ The regime of Augusto Pinochet was established before the rise of Thatcherism and Reaganism in the centres of the global capitalist order. It occurred before the global propagation of the neoliberal agenda by international financial institutions (Taylor, 2005: 183).

2.5 The emergence of the neoliberal political consensus

The 1970s saw the re-emergence of the ideas developed through a system of intellectual thought by Hayek and other neoliberal intellectuals in the early 20th century. In the mid-1970s economists like Milton Friedman and political intellectuals like Keith Joseph promoted theories of the free market oriented approach in the US and UK. Neoliberal theory started to gain academic respectability in the mid-1970s, a time when capitalism was in crisis (Cerny *et al*, 2005: 13). For Friedman the high inflation of the 1970s was a monetary phenomenon. In contradiction to Keynesian theories a big flaw in the system was that too much money was chasing after too few goods. Friedman believed that governments cannot choose between combinations of inflation and unemployment. Attempts to bring actual rate of employment below the natural rate would lead to inflation. Quantity theory of money, stating money supply has a direct relation to price levels, established that governments should focus on restraining the growth of the money supply (Lapavitsas, 2005: 34). Friedman's message and theory was to be adopted by the Thatcher and Reagan regimes in the late 1970s and through the 1980s. It was aimed at attempts to retain the rapid rate of inflation experienced during the 1970s.

The recession in the 1970s caused by stagflation and high inflation rates saw the capitalist core countries moving away from the Keynesian welfare state ideals and embedded liberalism compromise. Various middle class groups and fractions of the working class started voting for different parties promoting new economic alternatives. Parties and leaders in especially the United States and the United Kingdom were promoting a new form of economic 'conservatism' called neoliberalism. In 1979, 42% of trade unionists voted for the conservative party in the United Kingdom (Cerny, 2004: 6). Margaret Thatcher was elected as Prime Minister in May of 1979 and was determined to reform the economic agenda towards a neoliberal direction. Under the influence of Keith Joseph an agreement was reached that Keynesianism had to be abandoned and that monetarist supply side solutions were needed to cure stagflation. It led to changes in fiscal and social policies and the transformation of the role of institutions in the United Kingdom. The implementation of a new agenda based on the freedom of the individual and the freedom of the market and trade became dominant (Harvey, 2005: 22).

Attacks on labour organisations and trade unions were a key feature of the Thatcher regime. Unemployment was seen as necessary for stabilisation of capitalist economies and the capitalist order. Labour market flexibility was promoted and real wage reductions created mass unemployment (Lapavitsas, 2005: 33). The expansion of casual labour became a more prominent feature in the United States and the United Kingdom. The role of the welfare state was diminished and the state saw a retreat from ownership of production capacity as public utilities were privatised. This era of neoliberal revival of the late 1970s and 1980s was driven by a highly determined belief in the free market principles. The economic ideology was based on the virtues of the free market and state intervention was seen as distorted instrument and key to the misallocation of economic resources.

The stagflation in the 1970s led to deregulation in the United States and in October 1979 the principles of the New Deal economic policies, which was broadly focused on Keynesian fiscal and monetary policies focused on full employment, was abandoned for policies in favour to quell inflation (Harvey, 2005: 23). In the 1980s the Reagan administration ensured political backing for even further deregulation. Tax cuts, budget cuts and attacks on the influence of trade unions became prominent. In the 1980s deindustrialization at home was promoted as the spread of production abroad was accelerated. Trade liberalisation made it possible for corporations to act independently from the constraints of using national labour reserves. Free market economic policies made it possible to take production abroad, using cheaper labour reserves in the global periphery. The United States became a dominant role player on the influence of economic agenda's in the developing world, also propagating economic policies as an instrument against communism.

As observed by Pieterse (2006: 89) the post-Second World War period of 'proto-neoliberalism' coincides with the Cold War period. Economic thinking and ideology (free market), think tanks and economic policies as implemented in Chile, became part of an anti-communist strategy. Texts that laid the foundation for neoliberalism such as von Hayek's *Road to Serfdom* and Walt Rostow's *The Stages of Economic Growth* (also subtitled *An Anti-Communist Manifesto*) also have some anti-communist influences or tracts (Pieterse, 2006: 90). During the Cold War anti-communist criticism became "Free World" policy (see table below). The Cold War geopolitics became a global financial regime with the anti-communist alliance, merged into a free-market hegemonic compromise. With Anglo American "free enterprise" capitalism actively suppressing socialist forces in the world, placing pressure on

international labour unions and also blocking economic alternatives to establish a new international economic order (Pieterse, 2006:90).

Table 2.1: Continuities/Discontinuities between Cold War and Neoliberal Globalization (derived from Pieterse, 2006: 91)

Dimensions	Cold War	Neoliberalism
Ideology	Free world Open door Anti-communism	Free market Free trade Pro-American capitalism
Key state agencies	Pentagon, CIA	Treasury, Commerce
Economic center	Military-industrial complex, MNCs	MNCs, banks, Silicon Valley telecommunications, media
Pressure on developing countries	Join Free World	Structural adjustment
Means of pressure	National security and economic incentives	Financial discipline and economic incentives
Agents of pressure	US government, Pentagon	IMF, World bank, WTO
Investments	Sunbelt	Third World made safe
Security	Strong US military	Strong US military
Politics of containment	Military intervention, covert operations	Humanitarian intervention, nation-building
Allies	NATO, Isreal, Religious movements (Mujahideen, Hamas)	“Clash of civilizations” Islam as an opponent

The Anglo American economic model set the standard for neoliberal principles or policies and would dominate economic conversation within industrialised countries. Its expansion began with the election of Thatcher and Reagan in the late 1970s and early 1980s in the UK and the USA. The Anglo American model was based on cutting back on taxes and government spending, the elimination of tariffs and other barriers to free trade and the reduction of regulations in labour and financial markets (Palley, 2005: 25). The focus of macroeconomic policies was to control inflation rather than the stimulation in the growth of jobs. Rejection of the class compromises embedded in the previous economic policies was crucial and the weakening of institutions of social protection to a more pro-business orientated approach was a key element. The shrinking of the government’s role was crucial and the opening up to international goods and capital markets was promoted.

China embarked on the road to liberalisation in 1978 and in terms of the competition policy and the development of a single market, the European Union (EU) has also been influenced by the neoliberal turn since 1985 (Cerny, 2004: 6). The spread of neoliberalism and the Anglo American model was not only limited to the developed countries. Stagnation in the economies of socialist bloc countries in the 1970s and 1980s led to unrest and protests. This also led to the fall of the Berlin Wall in 1989 and a wide range of neoliberal experiments in 'transition' countries. The adjustment to neoliberal programs have not always been easy and the 1982 Latin American Crisis, 1997-1998 Asian and Russian financial crisis, Argentine crisis in 2001-2002 and recent financial crisis in the capitalist core countries are proof of this (Cerny *et al*, 2005: 14).

The neoliberal turn within the capitalist core countries was also adopted by important global financial institutions such as the IMF, World Bank and economic institutions such as US investment banks. This was helped on by the detachment of the dollar's linkage to the gold standard and the shift from a fixed exchange rate to a floating exchange rate (Harvey, 2005: 26). After 1973 New York investment banks became more actively involved internationally in lending to foreign governments. The internationalisation of credit and financial markets spurred on liberalisation at a greater pace. As third world debt rose in the 1980s the IMF and World Bank were reformed to take over management of third world debt largely through structural adjustment programmes (Cronin, 2006). Since 1982 the IMF and World Bank became important institutions in the enforcement of free market fundamentalism and neoliberal ideals into the developing world. Countries indebted to these institutions were advised to start with structural reforms and in doing so freeing up their markets to the international order.

Structural reforms included cuts in welfare, more flexible labour laws and privatisation (Harvey, 2005: 28). Thus the neoliberal turn was not only in the United States and the United Kingdom but the uneven development of neoliberalism was in fact a worldwide and complex process. It led to multiple determinations and dimensions of neoliberalism and a series of experiments. The Cold War however was fertile ground for the economic rhetoric of a natural free market without government intervention and collective tendencies (Palley, 2005: 22). The market was seen as the most efficient way to allocate resources and the best mechanism to achieve human freedom. Government intervention threatens that freedom. Competitive capitalism was seen as the base for democracy against totalitarianisms from the left. To

uphold this ideology and also to safeguard the neoliberal agenda, restrictions had to be made even if it went against human rights for example the restrictions on political freedom and trade unions in Chile in 1973.

With major economic recession in the developed (first) world in the mid-1970 and both the rapid increase in inflation and unemployment, the way was paved for neoliberal restructuring in the developed world (Kiely, 2005: 94). High debt levels in developing countries were created by lack of capital and a result of the recession. A way had to be found to resolve the debt crisis and the IMF came to the fore, enforcing neoliberal ideology in the developing world, especially in Latin America (Kiely, 2005: 94). The post-1970s crisis and hegemony of neoliberalism and US imperialism was spread into the periphery by institutions like the IMF and World Bank. The IMF was set up to provide loans to countries with balance of payment deficits and the World Bank was to be a vehicle for long term financial assistance (Cox, 1981: 108). Economically the institutions formed part of a system giving aid to 'weak' countries which were suffering and in need of economic assistance. The first phase of the globalisation of neoliberalism was characterised by the strong 'roll back' of the state, the consolidation of free market mechanisms away from the Keynesian and developmental state matrix (Munck, 2005: 62). It was especially strongly implemented by the Pinochet regime in 1973, Thatcher in the UK since 1979 and Reagan in the US since 1981. By the end of the 1980s economic neoliberalism established itself to be a very dominant driving force in the growth of the global political economy and world order.

2.6 Neoliberal hegemony, Washington and post-Washington Consensus

By the late 1980s and the collapse of the Soviet Union, the world moved towards a more complex form of neoliberal hegemony. This forms part of the fourth phase of globalisation as identified by Cerny, Menz and Soederberg (2005). The early 1990s was seen as an optimistic period for capitalism and the belief was established that the state should no longer focus on national economic development but should focus on the promotion of free market principles as established by neoclassical theory (MacGregor, 2005: 143).

At microeconomic level neoclassical theory presumes that the market is efficient and that the state is inefficient. The market and not the state should address problems of economic development such as industrial growth, international competition and employment creation (Saad-Filho, 2005: 113). At macroeconomic level the presumption is that the world economy

is characterised by capital mobility and a rapid advance of globalisation. With regard to neoclassical and neoliberal thinking poor or underdeveloped countries are poor not because of the lack of industry, infrastructure and money, but because of misconceived state intervention, corruption, inefficiency and misguided economic incentives (Saad-Filho, 2005: 114). Through the neoclassical perspective economic growth in especially the post-Cold War period, the state's role should be decreased to only function in supplying defence against foreign aggression, provision of a legal economic infrastructure for the functioning of markets and mediation between social groups to preserve and expand market relations (Saad-Filho, 2005: 114).

It is within this context that the Washington Consensus was developed.⁴ It is a list of ten points based upon the market oriented context needed for economic development in developing countries, at the time Latin America and post-Cold War 'transition' countries (Williamson, 2004: 3). The Washington Consensus became an important part of neoliberal policies followed by the IMF and World Bank. A brief overview of the ten points of the Washington Consensus will now be given.

Fiscal and monetary policy should be focused on the elimination of government budget deficits and the control of inflation. Fiscal discipline had to be established not to run large deficits (Williamson, 2004: 3). The scope of the state in economic intervention should be limited. Public expenditure priorities should be switched to pro-growth strategies. Non-merit subsidies should be focused on basic health, education and infrastructure. The tax system must be a combined broad tax base with moderate marginal tax rate (Williamson, 2004: 3). . Liberalisation of foreign trade and devaluation of the exchange must be promoted and focus should be given to the opening of the market for foreign investment inflows and to liberalise the domestic financial system in order to increase availability of savings and rate of return (Saad-Filho, 2005: 114). Liberalisation must happen to facilitate capital outflows and presumably enhance the attractiveness of the recipient country.

Another key component of the Washington Consensus is the flexibility of the labour market. This is seen as a necessary component to increase labour and employment productivity. The simplification of hiring and firing regulations, the reduction of the social security net, social security benefits and decentralisation of labour relations are key components of the

⁴ The term Washington Consensus was established in 1989.

Washington Consensus (Williamson, 2004: 3). Countries suffering from balance of payment problems and debt or currency crises can borrow money from the IMF but need to agree on a programme of stabilisation and structural adjustment in line with the neoliberal agenda and Washington Consensus. Countries are forced to implement neoliberal policies if the scarcity of foreign exchange becomes too extreme. About a hundred countries have been compelled to agree to adjustment programs in the last 20 years (Saad-Filho, 2005: 116).

Implementation problems with the Washington Consensus have led to resistance in many of these countries. The Washington Consensus favours domestic and foreign capital and for low and middle income countries it creates difficulties, especially at the expense of capital and workers. The implementation of the program has created unemployment and has reduced the coordination of economic activities and state policymaking. Structural adjustment policies associated with the Washington Consensus has led to the breakdown of jobs in traditional industries and because of rapid growth in new industrial programs led to structural unemployment and poverty marginalisation. These factors made the balance of payment in some of the countries exposed to the structural adjustment programs even more fragile (Saad-Filho, 2005: 116).

During the 1990s countries in need of financial assistance have received substantial amounts of foreign capital flows and debt relief. The assistance by IFIs has saved these countries from the threat of financial collapse. Structural adjustment policies did not address the issues of development and poor countries still faced debt service burdens. Economic growth and social development were also stagnant (Kiely, 2005: 98). By 1996 the debt relief for Heavily Indebted Poor Countries (HIPC) initiative was introduced and extended in 1999. It did not really effectively improve conditions. In the early 1990s post-communist countries experienced a massive decline in living standards because of IMF shock therapy policies, making the assumption that Eastern European and West Asian Countries could rapidly attract mobile foreign capital and in turn increase development. In turn open 'global' competition led to the increase of social disruption and economic instability (Kiely, 2005: 99).

During the 1980s and through the 1990s dissatisfaction grew about the agenda and implementation programmes promoted by the Washington Consensus. Its spread across the globe has received criticism in developing countries. In 1997 with the appointment of Joseph Stiglitz as chief economist of the World Bank and as a result of the Asian financial crisis of the late 1990s, a shift away from the orthodox agenda of the Washington Consensus towards

the new institutional economic ideas (NIE) began. The Asian financial crisis showed that orthodox economic programmes as promoted by the Washington Consensus were not foolproof. (Saad-Filho, 2005: 117). In 2000 Stiglitz was fired by the World Bank because of disagreeing with its policies and for promoting reformist ideals, moving away from economic focus points like inflation targeting or macroeconomic stabilisation. Supported by the then president of the World Bank, James Wolfensohn, agreement was reached that focus should be given to social issues as well (Turok, 2008: 250). This new period was termed the post-Washington Consensus phase.

The new institutional economic ideas moved away from the neoclassical focus on competition and markets towards looking at the implications of market failure, as well as the promotion of institutional reforms to enable market efficiency. This included reforms of the institutions of governance to allow state intervention to a more 'market friendly' approach (Kiely, 2005: 99). Economic development is not only observed through the perspective of GDP growth and consumption levels, but there is a new focus on changes in distribution of property rights, work patterns and social focus such as the influence of urbanisation on family structures. The NIE indicates positive guidelines for state intervention that is not only focused on economic policy (Saad-Filho, 2005: 117).

Stiglitz's confrontation with the Washington Consensus was in disagreement with some of the theoretical perspectives of neoclassical economics, but it was and is not promoting contradicting ideals as for instance Keynesianism or welfare state ideals. The post-Washington Consensus ideas are not in direct resistance to the theoretical fundamentals of contemporary mainstream neoclassicism and it still promotes capitalist efficiency through the market system (Lapavitsas, 2005: 38). The belief in the market being efficient in its pure theoretical form is still dominant and state intervention should deal with market imperfections and in doing so enhance the performance of the market. The IMF and World Bank's role since the early 1990s, has been to improve information flows, increase transparency, reduce corruption and create the adequate social environment for better performance of the market (Lapavitsas, 2005: 38). The neoliberal core of economic policies is still unaltered by the reforms of the post-Washington Consensus and the market is still seen as the dominant force even though some social recognition is given.

The second phase of neoliberalism and neoliberal hegemony has seen a shift to more social interventionist forms. New policies such as the post-Washington Consensus and the Third Way as envisioned by Bill Clinton and Tony Blair have been implemented focusing on humanising the market with more social democratic influence (Munck, 2005: 63). The increased spread of neoliberalism from the North Atlantic capitalist core in the periphery and the developing South has been a prominent feature of second phase neoliberalism. The role of the state has been transformed not in line with social shifts. It has gained a new form of regulation and new market oriented rules and policies. (Munck, 2005: 63). The 2nd phase of neoliberalism in the post-Cold War period saw the state's role changing to moderate the impact of financial regulation. The state had an impact in supporting the rescue of financial institutions and giving support in acquiring private capital and financing (Fine, 2010: 19). Opponents of neoliberalism but proponents of capitalism stated that the current order has seen a departure from neoliberalism while others would say that it is the beginning of a new phase of neoliberalism characterized by discretionary intervention in promoting the market in general according to the terms set within the post-Washington Consensus.

2.7 The rationale behind the neoliberal state and neoliberal growth approaches

The rationale behind neoliberalism and the implementation of neoliberal policies is driven by strong individual property rights, rule of law and an institution of freely functioning markets to guarantee individual freedom and freedom of trade (Harvey, 2005: 64). Privatisation and deregulation combined with competition eliminate government red tape procedure, increasing efficiency and productivity. The great emphasis on the individual would naturally lead to hostility to all forms of social solidarity. Diminishing the role of independent trade unions and social movements that are critical towards the market oriented approach should be important. The focus should not be on welfare provision and the role of the state with regard to healthcare, public education and social services (Harvey, 2005: 75). Individuals should be held responsible for their own actions and wellbeing and this applies to welfare, education, healthcare and pensions. Success or failure should be measured by entrepreneurial values.

The utopianism of neoliberal theory states that the reorganisation of capitalism must be focused to restore power to economic elites. Democracy and tyranny of the majority are seen as threats to individual rights and constitutional liberties. For believers in the neoliberal ideals, democracy is a luxury only possible under the conditions coupled with the establishment of a strong middle class. Neoliberals are in favour of governance by experts

and elites, along with a good business climate in opposition to collective rights of labour (Harvey, 2005: 70). A strong financial system is a necessity. Neoliberal growth theory is based on the market perspective and growth is directly related to market efficiency. The rationality behind this is, if economic efficiency is good, economic growth should also be good. Liberalisation of trade is important because of the advantages a country could receive from comparative advantage. Privatisation is a logical step to take because private output is better than public output. Free trade, stable prices, private enterprise, a well educated and healthy labour force should be established. Macroeconomic stabilisation should be focused on stabilisation of the market and business environment. The growth of nations through the neoliberal perspective is based on a liberal and uncoordinated market (Kitson, 2005: 42).

The shift away from Keynesian macroeconomic demand management to a more structural approach to fiscal and monetary policy was crucial especially after the 1970s crisis (Cerny *et al*, 2005: 17). Fiscal policy advocating a decrease in personal and corporate tax rates with the intention to free up private capital for investment. In the United States arm's length regulation, with the intention not to intervene in achieving particular outcomes, but rather establish and enforce general rules for certain sectors, have become more prominent. The role of governments is not to run industries or supply services directly, but focus on providing a working framework of rules and targets for market forces to follow. New forms of state regulation are in a sense contradictory to neoliberal policies of the 1970s and 1980s. The idea at that time was that governments should stay out of the economy almost entirely (Cerny *et al*, 2005: 17). Deregulation was promoted repealing any rules that caused market forces to behave in a different way other than in the interest of the government. The second phase of neoliberalism and more recent perspective promotes arm's length regulation and claims that this approach is better for optimal efficiency.

In the capitalist developed countries the idea of government intervention has not been abandoned and macroeconomic intervention is still a feature within the neoliberal world order. In times of economic crisis government actions with regard to fiscal and monetary policies have sometimes been contradictory to the neoliberal agenda. Tax cuts and increased public expenditure because of lower interest rates have been prominent (Munck, 2005: 34).

2.8 Neoliberalism and alternative economic strategies

The collapse of the Soviet socialist bloc could be seen as a victory for neoliberalism and neoliberal ideological triumph. Ever since the 1970s a belief was established, famously stated by Ms Margaret Thatcher “there is no alternative” and “you can’t buck the markets” (Thatcher quoted in Cerny *et al*, 2005: 14). The welfare state and ideals of the welfare state still survived in Central and Western Europe and neoliberalism itself has incorporated some social tendencies since the mid-1990s. Rich countries did not become rich because they followed neoliberal policies. Periods of rapid growth in rich and developing countries have not always coincided with neoliberal growth policies. This statement is supported by cases of rapid growth in Latin America (1930 – 1982), the East Asian Tigers during the period 1960 – 1980 and China from 1978 till present day (MacGregor, 2005: 143). Neoliberalism has in fact widened the gap between rich and poor countries of the capitalist core and the rest of the world. Only a few countries have joined the exclusive club of the rich. But countries like the ‘Asian Tigers’ (South Korea, Singapore, Taiwan and Hong Kong) have followed government-led development policies not supported by IFIs such as the IMF or World Bank (Cerny *et al*, 2005: 30). These governments followed policies relying on the public sector and state planning in association with domestic and corporate capital to promote capital accumulation and economic growth (Harvey, 2005: 70).

The international system of the 19th century, according to Polanyi, was characterised by a balance of power system between the great imperial powers, the gold standard and the self regulating market of the liberal state (Munck, 2005: 64). The self regulating market was an important element in this system. The international system of the last quarter of the 20th century, called globalisation, the information society or network society is driven by the global market with emphasis on competitiveness (Munck, 2005: 64). Common factors in global change since the early 1990s, as identified by Susan Strange, such as the acceleration of technology and capital intensive production replacing labour intensive production have also been factors promoting the globalisation of the international market system (Strange, 1997: 185). The ‘internationalisation’ of production has grown at a rapid rate since the 1980s and 1990s. Developed capitalist countries and multi-national companies must seek new markets for profits to cover capital costs because of higher production costs and better technology. Technological changes, mobility of capital and knowledge as a substitution of

local markets for world markets have increased since the end of the Cold War thus adding to the complexity of neoliberal hegemony (Strange, 1997: 186).

The collapse of state-owned enterprises followed by liberalisation and privatisation has led to the replacement of stable and secure jobs. Fewer, less well paid and more commonly non-unionised jobs have been a more prominent feature (Cerny *et al*, 2005: 29). Cox (1981) identified that settled and qualified or skilled workers in the international production sector are the potential allies of international capital because they could still benefit from international production. For the marginalised labour section at a national level of production it is a different story and more protection is needed in the defence of national capital and jobs of workers (Cox, 1981: 112). The downside to neoliberal policies is the gap it creates between the wealthy and marginalised poor section of society. This has led to social unrest and criminal behaviour in many countries ultimately leading to rising crime rates.

Privatisation of former key areas in public provision such as health and education has denied access to the lower social classes leading to even further inequality. By reducing social regulation in private economic activities and letting the markets take its course, a key characteristic of neoliberalism, governments have been prevented to implement policies for people to control their economic affairs (MacEwan, 1999: 5). It prevents the opportunity to receive economic assistance from state institutions if needed. The neoliberal argument supplementing privatisation policies and liberalisation is that it might cause problems in the short run but will lead to higher living standards in the long run. This is the key to democracy through the neoliberal perspective and the common logic of globalisation.

2.9 Conclusion

Classic elements of neoliberalism are cutting back on taxes and government expenditure, the elimination of tariffs and other barriers to free trade and the reduction of regulations in labour and financial markets, focusing on macroeconomic policies to control inflation rather than the stimulation of the growth or creation of jobs. Rejection of class compromises and the weakening of institutions for social protection to a more pro-business orientated approach are key elements. The shrinking of the government's role is important and the opening up to trade in international goods and capital markets are an important feature. Structural reforms include cuts in welfare, more flexible labour laws and privatisation. The market is seen as the

most efficient way to allocate resources and the best mechanism to achieve human freedom and according to the neoliberal perspective governments threaten that freedom. Attention will now move to the democratic transition in South Africa and the economic policies that was followed by the ANC government after the end of *apartheid*.

Chapter 3

South Africa and Neoliberal Convergence

3.1 Introduction

The previous chapter indicated how neoliberalism has been shaped and developed to become hegemonic within the global world order. The end of the Cold War as associated with events such as the fall of the Berlin wall in 1989 and abolition of the Soviet government in 1991 has led to a more complex, globally integrated world order. The following section will focus on the influence of neoliberalism and globalisation on the South African political economy since the establishment of democracy and the first democratic election in 1994. The first three sections of this chapter will focus on the influence of globalisation on economic decision making within South Africa and the newly established government led by the ANC. The following two sections will focus on the balance of power within the country with regard to business interests and the influence of the left in the tripartite alliance. An overview of the GEAR macroeconomic strategy will follow this section. The last two sections and conclusion will provide an overview of the political economy of South Africa within the first decade after the end of *apartheid*.

3.2 South Africa in a changing world order

3.2.1 The end of apartheid and demands for neoliberal reform

In the second chapter of this thesis it is stated that the late 1970s and 1980s was a time of neoliberal revival in especially northern hemisphere capitalist states and countries in the capitalist core such as the United States and the United Kingdom. Within this time the *apartheid* regime in South Africa came under increased pressure, as a result of economic isolation and financial sanctions as enforced by the international community. Business pressure as a result of the advantages that could be maintained as a result of market integration and financial globalisation, also forced the government to consider implementing more market orientated or neoliberal economic programmes. By the mid-1980s the NP, under the leadership of P. W. Botha, tried to establish neoliberal adjustments to economic policies, but the 1985 debt crisis and internal political unrest in the country led to the suspension of the implementation of neoliberal programmes (Habib and Padayachee, 2000: 248).

The neoliberal turn and also the NP government's commitment towards implementing neoliberal economic policies did not occur spontaneously but was influenced by the political situation in the country. Initially *apartheid* was functional for especially the mining and agricultural sectors of the economy, because of the great abundance of unskilled labour available as a result of racial inequality, which was artificially maintained as part of *apartheid* policy. But by the 1960s and 1970s the South African economy experienced rapid growth and technological innovations in mining and agriculture increased, in turn increasing the demand for more skilled labour (Schneider, 2003: 28). As the demand for skilled labour increased, *apartheid* restrictions, preventing blacks from working in skilled jobs became costly for businesses. The decline of the gold price in the 1980s and economic recession decreased business profits in South Africa (Carmody, 2002: 262). Furthermore investment opportunities of South African conglomerates were restricted by domestic exchange controls and sanctions in the 1980s, increasing pressure on the NP government for economic reforms.

Despite the restrictions as a result of *apartheid*, the economic growth rates were high in the 1950s and 1960s, thus decreasing the demand for economic reforms. But with slow growth rates in the 1970s and increase in political unrest, pressure on reforms was reinforced within the political and economic spectrum. Neoliberal adjustment policies were briefly suspended because focus was shifted to internal problems within the country in the mid-1980s, but in 1989 the new state president F. W. De Klerk recognised the importance of re-establishing an alliance between the business sector and the state. It was clear that *apartheid* restrictions had to be lifted. As stated by De Klerk regarding the persistence of *apartheid* "if pursued, it would bring disaster to all the peoples of our country - including my own" (De Klerk quoted in Schneider, 2003: 30).

With the policies of racial inequality and segregation associated with the *apartheid* regime, democratic South Africa historically inherited a rather unique situation. Under *apartheid* South Africa was the most unequal society in the world with its Gini coefficient measured at 0.68 in 1975 (Schneider, 2003: 34). As stated by Schneider the relaxation of specific *apartheid* policies during the late 1980s, could also be seen as a measure taken to withstand the destruction of economic *apartheid* with the goal of preserving the high standards of living of white South Africans while also giving more rights to black South Africans in order to suppress political unrest (Schneider, 2003: 28). Inequality and expansion economic activities in South Africa have also been attributed to the political economy of South Africa being

dominated by the ‘minerals-energy complex’ (MEC). As stated by Fine and Rustomjee the MEC has blocked economic integration between different sectors and diversification of the economy. The South African economy has been stagnating with focus centred on mining, mineral processing and the production of energy, thus placing the main economic resources and power of the country in the hands of big business conglomerates (Carmody, 2002: 267).

In the early 1990s the neoliberal experiment and path toward global integration was resumed and more autonomy was given to the Reserve Bank, especially in decision making with regard to monetary policy matters. In 1993 the National Party’s approach to economic policies for South Africa was established in the document “Restructuring of the South African Economy: A Normative Model Approach” (NEM). NEM was based on a market orientated approach with economic strategies based on supply side reforms (Habib and Padayachee, 2000: 248). Redistribution was recognised as an important factor within the NEM, but the rationale of the document was that privatisation and deregulation would bring benefits to the broader population in the long run. The NEM document also reflected IFI policy demands and the economic programme was also more closely related to macroeconomic stabilisation and structural adjustment programmes as implemented in developing countries during the 1980s (Hanson and Hentz, 1999: 494).

The NEM document followed the logic as envisioned by the World Bank and IFIs. The reduced role of the state was supported and a strong commitment to budgetary restraints was tied in with commitments to maintain low inflation levels. There was however some difference with regard to the NEM and World Bank policies, as for instance the World Bank’s support for infrastructural development. The NEM had some identical conclusions to that of the IMF and a consensus was established between the National Party and IFIs on the content of future economic policies in South Africa (Hanson and Hentz, 1999: 495).

It is clear that the National Party’s leaders saw that it would be impossible to carry on following isolationist policies within an era of global integration. But the job of carrying South Africa into the era of complex globalisation would fall on the shoulders of the ANC. An economic strategy as envisioned by the NEM document was however, historically going against the ideological aims of the ANC. Historically the ANC ideology was more closely linked to socialist ideals with focus on universal equality as described by the Freedom Charter of 1955. By the late 1980s the ANC’s ideological focus was driven by the anti-colonial struggle against the *apartheid* regime and racial segregation. The general consensus

within the ANC before the democratic transition was that the state would play a big role in the regulation of certain key areas within the market and equal redistribution of economic gains throughout society. But with the unbanning of the ANC in the 1990s, the organisation did not really have a sound economic strategy or clearly formulated document to achieve economic goals. During the struggle the ANC was committed to a mixture of socialist reforms of the economy, with focus on nationalisation of the mines, banks and monopoly industries (Taylor and Williams, 2000: 24).

Democratic transition in South Africa would take place within an era of neoliberal globalisation and the collapse of communism with the end of the Cold War. It happened within the first 'shock phase' of neoliberalism characterised by programmes envisioned by the Washington Consensus and neoliberal projects in post-communist countries. This phase was characterised by a strong focus on privatisation of public services at the expense of social policies (Marais, 2011: 135).

3.2.2 ANC ideology versus the logic of globalisation

When Nelson Mandela was released from prison in February 1990 he was still propagating ideals of state driven equality and the nationalisation of the mines and banks. It was also stated that the ANC government would play a critical role in nationalisation and redistribution to create a more equal South Africa. During September of 1990 the ANC Harare workshops were planning economic strategies and economic ideas of growth and development focused on basic needs instead of programmes focused on privatisation and deregulation initiatives. Mandela stated that the ANC intended to rely on state-owned industries to rebuild the South African economy. He also claimed that South Africa would not be an exception in relation to other countries in the world, regarding internally focused or pro-state driven strategies and that historically countries like Britain, Japan and Germany did the same in the aftermath of global conflict, post-Second World War, in time dominated by the ideals of Keynesianism and social welfare (Gumede, 2005: 70). But contrary to the ideology of direct state intervention and nationalisation, moderate leaders in the ANC such as Thabo Mbeki encouraged the idea of negotiation with key business people in South Africa. By the 1990s businesses in South Africa had outgrown the domestic market and as a consequence corporations such as the world's largest resource company, Anglo-American

and Afrikaner capital pushed for negotiated settlements with the ANC to globalise their activities (Carmody, 2002: 262).⁵

In the early 1990s a shift occurred within the ANC leadership away from the struggle ideology. At the World Economic Forum in Davos, Switzerland in 1992 Mandela was convinced by various world leaders to ditch the ideas of nationalisation as envisioned by the Harare workshops (Gumede, 2005: 70). State owned development was opposed to the process of globalisation that was taking root and gaining momentum since the late 1980s. The economies of the world were becoming more integrated and interdependent. The logic of globalisation established that it was impossible to develop separately from other countries.

Mandela was finally convinced by political leaders from China and Vietnam, both socialist states, that the collapse of the Soviet Union convinced them to embrace private enterprise and more market orientated economic policies (Gumede, 2005: 70). The ANC leaders were convinced and acknowledged the importance of ideas envisioned by the international community with regard to unregulated economic programmes. A number of factors strengthened the argument for adopting an economic policy based on neoliberal principles. As stated by Taylor and Williams, the collapse of the Soviet economies caught a lot of socialist intellectuals off guard and in a state of conceptual and practical disarray, thus giving the argument for 'no alternative' to that of neoliberal capitalism more strength. The media, neoliberal intellectuals and well funded pro-neoliberal groups in civil society also attacked ANC economic strategies, 'educating' the ANC elite and public about the madness of following a non-neoliberal approach to the economy (Taylor and Williams, 2000: 26).

There was however some disagreement to following a 'pure' market driven approach as envisioned by programmes such as the NEM and structural adjustment programmes of the IFIs. In pre-democratic South Africa the MERG report envisioned an alternative economic strategy to that of the NEM document. The Macro Economic Research Group (MERG) was launched by the congress alliance in November 1991. They received financial and technical support from the Canadian International Development Research Centre. The final outcome

⁵ The concept of 'Afrikaner capital' refers to firms such as the *Suid-Afrikaanse Lewens Assuransie Maatskappij Beperk* (Sanlam) to some extent, Old Mutual and the influence of Afrikaner interest in the corporate sector as a result of political power (Bell and Farrell, 1997: 601). During the 1930s the idea of Afrikaner capitalism developed as part of shaping an Afrikaner nationalistic identity. Since the 1940s, more specifically 1948 when the NP came to power as governing party firms such as Sanlam and *Volkskas* (later Absa) bank has played a central role in the South African economy.

and plans as promoted by the MERG report were in line with neo Keynesian ideas and the main plan or focus of the programme was divided into two phases. The MERG strategy would need a strong private sector working together with the public sector. The first phase of the programme would be a public investment led phase from 1993 till 1999. The second phase would have been a sustained growth phase with a predicted annual growth of 5% by 2004 and the creation of 300 000 new jobs annually (Marais, 2001: 137).

The MERG report stated heavy interaction and reliance of the public and private sector, but nothing was really established about the confidence of the private sector, especially regarding the role of the state. MERG promoted economic restructuring through the labour market, improved training, education, better skill building and higher wages, with aims to establish total equality (Marais, 2011: 107). The MERG report also opted or envisioned a strategy with the Reserve Bank under direct political control, the monitoring of business behaviour, control over capital markets and restructuring of corporate boards (Nattrass, 1994: 224). The MERG report deemed IFI and the NP government's policies as anti-labour and inappropriate for post-*apartheid* South Africa. But by 1993 the ANC was not interested in taking any risks in alienating business and external forces such as the IMF and World Bank asking for a more market orientated approach.

To a certain extent the ANC was not ready for the international economic order they would enter into within the democratic transition period. In 1990, after 80 years of the organisation's existence, the Department of Economic Policy was established with Trevor Manuel as the head of the department (Gumede, 2005: 72). The lack of a strong economic department was exploited by the IFIs and South African business sector controlling the resources. During the 1990s the World Bank sent a number of 'missions' to South Africa, ANC policy makers and researchers were the targets of these 'missions'. Senior ANC officials were also sent to the Washington headquarters of the World Bank and IMF for training. ANC top officials were led to believe that it was 'common sense' to adopt neoliberal policies and that there was 'no alternative' to the market orientated approach. This was especially effectively done by the World Bank (Narsiah, 2002: 4). Trevor Manuel and Tito Mboweni, who would become the Governor of the Reserve Bank in 1999 till 2009, were among the ANC leaders who received IMF and World Bank training. Aligning themselves with Mbeki they were also more business orientated and open to the ideas of global integration dominated by neoliberal ideals in contrast to alternative economic policies as envisioned by the MERG report.

International organisations such as the IMF and World Bank were pressing, trying to persuade ANC leaders not to give in to internal pressures and congress alliance forces pushing for alternative economic policies or strategies closer to a state driven approach. The IMF's advice to the ANC leaders was reflected in the Letter of Intent issued in November 1993. A loan of \$ 850 million would be sponsored by the IMF Compensatory and Contingency Financing Facility to implement the needed adjustments to follow an economic strategy closer to the neoliberal approach (Padayachee, 1994: 588). The letter warned of the dangers of, for instance increases in real wages and public and private sector cooperation as envisioned by the MERG report. The importance of more neoliberal or market orientated policy, such as the control of inflation, monetary targeting, trade and industrial liberalisation were emphasised by the IMF.

Before 1989 the tripartite alliance members, the ANC, COSATU and the SACP, agreed that the ANC's economic policies would be based on a more socialist approach closer to the policies of the Soviet Union, Eastern Europe and Cuba. At the time of the transition to democracy, several of these regimes and governments had either collapsed or were in an economic crisis. Western European social democracies were also struggling. As former communist and ANC negotiator, Mac Maharaj, stated "there were no examples to learn from or use as a guide. We could not go to it alone. Countries that did, such as Sweden, had the space to do so with the Cold War still raging and the world being bipolar. The ANC came to power at the end of the Cold War in a unipolar world. We had no room to manoeuvre" (Maharaj quoted in Gumede, 2005: 76). The ANC government was in no position to risk an alternative economic strategy or to sail against the juggernaut of globalisation taking root in the early 1990s. The ideals of the struggle were giving way to the reality of the time, dominated by global confidence in neoliberal orthodoxy. It was clear that the ANC would inherit huge budget deficits from the *apartheid* regime. Economic policies based on socialist principles would isolate the country from foreign investment and capital, hastening the country's economic demise leading it into ruin and economic isolation (Narsiah, 2002: 4). South Africa became a democracy right in the middle of a change in the global world order. The ANC government would have to compromise some of its ideological ideals and conform to the trends set by the new unipolar global order established by the end of the Cold War.

3.3 The RDP and economic path chosen by the ANC government

On 27 April 1994 the ANC Party won the first democratic elections in South Africa. The ANC had the role of dominant party in the newly established Government of National Unity (GNU). The RDP was the chosen economic programme that the government would follow from 1994 till 1996. Key social and economic aims of the programme were to establish a more equal society through reconstruction and development and to deepen democracy for all within the country. The RDP was central to the ANC's 1994 election platform and early versions of the document envisioned the expansion of state economic involvement, corporatist policy making and growth through redistribution (Alence, 2004: 84). There was however a significant shift away from some of the state and public led welfare aims of the MERG report. It was a much more outward orientated growth programme with acceptance of export growth, simplification of tariff structures with minimal disruption of employment. Greater importance was given to the attraction of foreign investment and the RDP moved away from the idea of an independent Reserve Bank as was envisioned by MERG (Habib and Padayachee, 2000: 251). Legislation however still permitted the representation by trade unions and civil society on the Bank's board of directors.

The economic focus points of the ANC in the mid-1990s were to increase the rate of economic growth and to establish an increase in the rate of investment to stimulate growth and modernise production capabilities. This had to be done in a manner that would increase wage employment, better wages for employees and greater equality in distribution of income and wealth (Weeks, 1999: 796). These aims still had a resemblance to outcome orientated interventionism as implemented during the post-Second World War Keynesian welfare state phase with objectives and public policy aims of focusing on enhancing economic growth, promotion of full employment and a certain amount of redistribution of wealth and income through the welfare state. Commitment to greater equality and social policy would also fall under policy aspects of the welfare state (Cerny *et al*, 2005: 17).

The RDP was initially largely influenced by social democratic supporters within COSATU, especially the National Union of Metal workers. Supporters of the social democratic ideals became increasingly disgruntled as the RDP document's content was steadily changed with increased focus to suit the neoliberal paradigm. By November 1994 the White Paper on the RDP went through various changes deviating from the February 1994 RDP base document, pushing more for privatisation and fiscal discipline and eliminating proposals for

nationalisation as a policy option (Taylor and Williams, 2000: 31). The ANC government's strategy for economic growth moved closer to neoliberal orthodoxy as originally envisioned. It placed emphasis on an export orientated manufacturing sector favouring financial and export orientated mining interests.

Trevor Manuel also pushed for policies endorsing GATT, guarantees of Reserve Bank independence in the constitution and agreement was also reached on the first IMF loan since 1982, in turn emphasising strict fiscal and monetary constraints (Bond, 1996: 9). The Reserve Bank policy was to focus on easing exchange controls to allow local institutions to invest abroad. This was in order to get counter investment on existing portfolios (Marias, 2011: 91). This was a renowned trend established by neoliberal globalisation. In the Third World, countries were looking for foreign sources to establish foreign direct investment and international portfolio investment, especially in the early 1990s (Cerny *et al*, 2005: 15).

The reduction of trade barriers and capital flows as was established during 1947 with GATT and several rounds of tariff reductions since the 1970s has become part of globalisation and neoliberal consensus (Cerny *et al*, 2005: 15). South Africa would also make the adjustments to its economy regarding trade liberalisation conforming to the logic of global interdependence. At the 1994 Uruguay Round of GATT it was stated that deep tariff cuts were to be made regarding the South African economy. Trade policy would be focused on exports and reliance on supply side measures. The lowering of corporate tax rates would be implemented providing more tax incentives for human resource development. In August 1994 the Department of Trade and Industry announced that tariff cuts on clothing and textiles and automobile components would be made (Marias, 2011: 92). With failure to effectively handle South Africa's *apartheid* era foreign debt, neoliberal cost recovery mechanisms and programmes were established, covering a variation of different sectors, ranging from education to health services and also basic infrastructure provision (Bond, 1996: 9). The ANC was trying to prove to business that they would interact globally, hoping to spur on renewed investment confidence.

Tight capital controls were a barrier to foreign investment and the government would take a phased approach in lifting them. Since the early 1970s with the collapse of the 'adjustable peg' exchange rate controls, cross border capital flows and floating exchange rates have become more prominent. In post-*apartheid* South Africa capital controls would also be

limited. The first step was the abolishment of the financial Rand in 1995 and by 1999 about three quarters of capital controls were removed.

Even though the RDP programme reflected welfare intentions like meeting basic needs of the people such as the provision of jobs, houses, water, electricity, transportation, nutrition, health care and social welfare, developing human resources, building the economy and democratising the South African state (Deegan, 2001: 117), the government was conforming to fairly orthodox measures for instance support for trade liberalisation and opening up to the global economy as requested by financial agencies, organisations, foreign and domestic business. The balance of power on economic grounds would shift to satisfy business confidence. As stated by Trevor Manuel in 1995 “The collapse of the Soviet Union, the destruction of the Berlin Wall broke the revolutionary romantic illusions of many. That very stark collapse shifted the debate very significantly” (Manuel quoted in Habib and Padayachee, 2000: 253).

3.4 Balance of power between business and labour

Pontusson argues that Coordinated Market Economies (CME) has since the late 1980s increasingly come to reflect the economic principles of Liberalized Market Economies (LME) because of increased trade, intensified international competition and capital mobility (Pontusson, 2005: 166). This has been one of the features of the post-Cold War neoliberal globalisation. Within LMEs business interests tend to push governments to improve and coordinate the business climate sharpening its edges and the comparative advantage of the economy as a whole. Pontusson also states that within LMEs, forms of resistance would most likely come from organised labour. But the balance of power is more likely to tilt towards business (Pontusson, 2005: 183).

In the early 1990s some of the top ANC leaders including Thabo Mbeki, who was Deputy President from 1994 till 1999, embraced the fact that it would be important not to alienate business interests in South Africa. Since the late 1980s and the collapse of the Berlin Wall in 1989, Mbeki and some of the less radical ANC leaders were committed not to take the ANC on the Eastern European socialist path. There was a realisation that, if the ANC government would follow a path closer to economic orthodoxy as would be more acceptable within the international community, they would need to have control of the tripartite alliance (had to

keep COSATU and the SACP at bay). It was no coincidence that Trevor Manuel was elected as the head of the economic department in 1990.

In the late 1980s COSATU became increasingly concerned about the ANC not having a solid economic strategy. Workshops were established and research was done to come up with a sound economic strategy, reflecting the needs of the people. The results of the research conducted were published in *Our Political Economy: Understanding the Problems* (Gumede, 2005: 73). The main elements of the document was a growth path focused on investment in training and development, extension of basic services and infrastructure, redirection of investment into productive capacity, technology innovation, reorientation of the manufacturing sector to produce for the mass market. Rural development and land reform were also seen as crucial elements (Gumede, 2005: 74). There was increased mistrust about Mbeki and the freedom that was granted to him and his economic comrades.

COSATU played an important role in the acceptance of some of the core elements and welfare responsibilities of the RDP programme. Proposals such as a better life for all, a million houses over a 5 year period and provision for basic services such as electricity and water and education for the previously disadvantaged were some of the concerns established by COSATU (Gumede, 2005: 75). Leading the mission to achieve the goals as established by the 150 page long RDP document, a product developed because of the struggle against the *apartheid* regime, was ex-trade union leader Jay Naidoo. The RDP document also reflected a 'grassroots' attitude towards economic development in post-*apartheid* South Africa, carrying some of the traditions of the 1955 Freedom Charter (Bond, 1996: 8).

During the election period of 1994, COSATU took a firm stand against supporting a neoliberal economic growth path as suggested by the NP and some top level ANC members. The labour constituencies in South Africa directly attacked IMF and pro-business policies. As COSATU's General Secretary Sam Shilowa stated, "Militant and organized workers will not accept a formula for economic growth based on their exploitation" (Shilowa quoted in Hanson and Hentz, 1999: 497). COSATU also opposed the IMF loan for \$ 850 million because of the IMF's stance on favouring wage constraints in South Africa (Hanson and Hentz, 1999: 497).

The corporate sector in South Africa did everything in its power to make sure that the ANC would commit to follow a neoliberal path. Corporate scenario planning was aggressively promoted in the early 1990s and the first was Nedcor/Old Mutual's *Prospects for a Successful Transition*, which was launched in the 1990s. Between 1991 and 1992 over 45 000 handpicked South Africans from different levels of society and the ANC went to attend the presentation proposing the prospects for transition (Taylor and Williams, 2000: 28). Other documents and scenarios such as Sanlam's *Platform for Investment*, the *Mont Fleur Scenarios* and *Economic Options for South Africa* as established by the South African Chamber of Business, were ideologically bombarding the ANC to conform to orthodoxy (Taylor and Williams, 2000: 28). In 1994 a few weeks after the establishment of the new government and transition to democracy Mandela, Mbeki and key economic chiefs including Manuel, Erwin and Mboweni met with the Brenthurst group led by Anglo-American magnate Harry Oppenheimer, who represented big financial and corporate institutions in South Africa. The corporate and private sector needed the assurance that the government was going to be supportive of them. They needed a guarantee that the SACP and COSATU could not enforce nationalisation in the country. Local and international leaders started asking for a macroeconomic strategy. By November 1995 Mbeki hinted that South Africa would make adjustments to its economic policies and needed more realistic macroeconomic considerations (Gumede, 2005: 87). In February 1996 Thabo Mbeki announced that a new strategy for economic development would be followed and by 28 March 1996 the RDP office was closed and Jay Naidoo its nominal head was reassigned (Taylor and Williams, 2000: 33).

The new strategy would be politically neutral but it had a mainstream economic design to stimulate business confidence. The programme was developed in secrecy away from the tripartite alliance's leftist forces, the SACP and COSATU. Mbeki and his most trusted allies developed the GEAR macroeconomic strategy. The GEAR architects were an elite handpicked few including Manuel, Erwin and Netshitenzhe. The new economic strategy document was published on 14 June 1996: *Growth Employment and Redistribution: A Macroeconomic Strategy* (Department of Finance, 1996).

The GEAR strategy would move away from the welfare aims as set out in the RDP document or at least the way how the aims of RDP would be achieved. The RDP is only referred to on four occasions in the GEAR document and in contrast to the RDP, redistribution was only promoted as a by product of growth and not as an integral part of the economic strategy

(Taylor and Williams, 2000: 34). Greater emphasis would be placed on the private sector and its role would be more important in stimulating economic growth. As stated by Joel Netshitenzhe “GEAR was a structural adjustment policy, self imposed, to stabilise the macroeconomic situation, to deal with the realities of an unmanageable budget deficit, high interest rates and weak local and foreign investor confidence” (Netshitenzhe quoted in Gumede, 2005: 88).

GEAR stressed the importance of the complete privatisation of non-essential state-owned corporations and partial privatisation of others. Wage restraints were placed on organised labour and flexibility of the labour market was promoted. Lower inflation and trade liberalisation would have to be established by the new economic strategy. Importance was placed on the removal of tariffs and other forms of protections by the year 2000 (Marais, 2001: 187). Manuel stated that GEAR would create a faster growth cycle to deliver on RDP goals. The GEAR document stated that it would increase annual growth to the average of 4, 2% and create 1, 35 million jobs by 2000, it would boost exports by an average of 8, 4% per annum and develop social structure (Taylor and Williams, 2000: 33).

COSATU and the SACP were stunned by the proposals set by GEAR. When GEAR was first published, it was endorsed by the SACP leadership, believing that it would carry on with the objectives of the RDP. But by 1997 the SACP started to publicly criticise GEAR, with its core fiscal and monetary policies in line with a neoliberal approach, contradicting reconstruction and development objectives. This criticism would continue throughout the late 1990s and early 2000s, including support for COSATU’s campaign against privatisation (Thomas, 2007: 125). But as the SACP formed part of the ANC-dominated tripartite alliance, its criticism towards GEAR and neoliberal policies was limited. The SACP could not totally act or question the legitimacy of the ANC (Thomas, 2007: 129).

The ANC was in a sense seduced by global capitalism and financial institutions reflecting the spoils of neoliberalism and its hegemonic position in the world order. Since 1994 till 2001 various South African politicians presided temporarily in important positions on the UN Security Council and on boards of governors of the IMF and World Bank (Andreasson, 2006: 310). Policy making in the 1st decade of ANC as ruling party in the alliance government saw the ‘marginalisation’ of the internal left of the alliance. By late 1990s the balance of power was concentrated in the hands of a small group of the ANC leadership centred by Mbeki, Mboweni, Manuel, Erwin and Pahad. The SACP and COSATU’s position in economic

decision making was sidelined since 1994 and was reduced further by GEAR (Andreasson, 2006: 695).

3.5 The main focus points of the GEAR macroeconomic strategy

GEAR was an export-led strategy focused on anti-inflationary policies, fiscal restraint, continued tight monetary policies and wage restraints. It was aimed to achieve a targeted annual GDP growth of 2, 6% to 4, 2% between 1996 – 2000 and a deficit reduction to the target rate of 3% of the GDP (Hoogeveen and Ozler, 2005: 3). The main goals of the RDP were reanalysed to make labour markets more flexible and to improve productivity. The state would play a neutral role between business and labour regarding influence in the economy (Hoogeveen and Ozler, 2005: 3).

GEAR was investment friendly and praised by the corporate sector in the manner that it responded to business demands. The duty for economic salvation would be on the shoulders of the private sector and integration within the global economy (Marais, 2001: 165). One of the main policy goals of GEAR was inflation targeting and since the mid-1990s the inflation rate was kept obsessively low. The inflation rate peaked in 1991 at 15, 3% and dropped to 7, 3% by 1996. The effect of forcing inflation down would constrain operations of small and medium sized companies.

There was a focus to shift away from revenue created by mainly gold led exports, aiming to boost manufactured exports. There was substantial growth in the early 1990s but by 1997 exports began to falter. Imports however saw dramatic growth because of trade liberalisation and GATT agreements. Focus was given to ease on financial controls and fiscal austerity to drive the budget down to 3% by the year 2000 (Marais, 2011: 115). Savings on interest payments were used for social spending and a surge in private investments were used to drive growth. The state's role in private investment decisions would be limited and GEAR's focus would be investment friendly in accordance with the financial sector and business. Personal income taxes in relation to total taxes had risen since the mid-1970s to the mid-1990s. The corporate tax rates shrunk since the mid-1970s to the late 1990s. Contributions to the tax revenue plummeted from 27% in the mid-1970s to 11% in the mid-1990s (Marais, 2001: 116).

Central features of neoliberalism and the neoliberal state is the attempt to control inflation and a shift away from Keynesian demand management to a more structural approach to fiscal and monetary policy. Fiscal policy within the neoliberal context should be focused on personal taxation at higher rates and corporate taxation at lower rates thus freeing up capital for investment and supply side policy (Cerny *et al*, 2005: 16). The GEAR economic strategy was certainly focusing on these fiscal and monetary points. Macroeconomic stabilisation was seen as a very important priority. The idea behind GEAR was to establish a competitive fast growing economy, establishing sufficient job creation. Recognition was given to the idea of redistribution of income opportunities for the poor and a society with sound health care, education and other basic services available to all (Department of Finance, 1996).

By the late 1990s the government's economic policies were neoliberal in character emphasising trade liberalisation, finance relations, privatisation and deficit reductions. In 1994 capital flows stood at R 4 billion, by 1995 it stood at R 14 billion and would increase through 1997. Foreign capital flows were boosted especially regarding short term inflows, but there was a slowdown in long term capital inflows. Foreign direct investment (FDI) was not steady and by 1998 with the Asian financial crisis, FDI was not delivering as was initially expected. Instead inflows were highly mobile and thus ensued in volatile portfolio investments (Habib and Padayachee, 2000: 256). The Rand came under increased pressure since the mid-to late 1990s and saw sharp falls in relation to the dollar, 20% drop in its value in mid-1998 against the dollar and the Pound. Economic liberalisation was proving to be a difficult task in the turbulent global conditions of the capital markets during the late 1990s.

The only real beneficiaries of the end of *apartheid* and post-Cold War global interdependence that South Africa was now part of, were the big business conglomerates. With the liberalisation of economy and end of sanctions in the early 1990s, companies could globalise their operations to a greater extent. This was firstly done regionally with the increased investment in Sub-Saharan Africa, increasing fivefold to the total amount of 25%. From 1991 to 1995 Africa received 42% of outward investments from South Africa, this in relation to only 18% investments to the European Union (Carmody, 2002: 262). Businesses such as Anglo-American, Old Mutual, SA Breweries, Billiton and Dimension Data also focused on offshore expansion, to access cheaper capital internationally. Offshore expansion was done to improve the global competitiveness of these businesses and also to increase investments in the South African economy (Carmody, 2002: 263).

With the phenomenon of neoliberal globalisation since the early 1990s a key aspect of emerging markets has been to look for primary foreign sources for both FDI and international portfolio investment. The GEAR macroeconomic strategy held some of these aims, especially the establishment of business confidence to attract foreign investment. The emphasis of the GEAR strategy was focused on containing government expenditure, lower fiscal deficits, lower inflation, deregulation, privatisation, priority on FDI and minimal state intervention moving away from MERG and RDP policies that suggested aims of more state intervention (Habib and Padayachee, 2000: 252).

3.6 The limitations of GEAR

By the late 1990s GEAR was not delivering on the job or growth front. The 1998 financial crisis had also severely dampened growth projections. After the 1998 crisis some of the ANC leaders, including Mandela, were beginning to question global capitalism and whether it was delivering up to its earlier promises, as was made in the early 1990s. The late 1990s was also a time of IMF and World Bank debates with regard to policies associated with neoliberal orthodoxy. Alternative approaches or less ideologically driven approaches were advocated by important economic figures like Joseph Stiglitz and the post-Washington Consensus era. The mid-1990s saw the end of the initial phase of *blitzkrieg* adjustments as pushed for by the Washington Consensus and ‘shock’ phase since the collapse of the Soviet Union (Marais, 2011: 135). Within the post-Washington Consensus phase more emphasis was placed on poverty relief, health and education, economic growth and social stability. The role of civil society received more recognition and the concept of social and human capital gained importance. It was realised that neoliberalism, globalisation and efficiency of the market driven approach were not as foolproof as originally believed.

Since 1994 unemployment in South Africa grew from 16% to 35% and by the late 1990s economic growth stood at 3% far short of the projected 6% (Herbst, 2005: 97). Inequality in South Africa was rising and the GEAR economic strategy was not stopping it. The Gini coefficient in South Africa increased from 0.73 in 1995 to 0.80 in 1998 and by 2000, black unemployment levels was at 31.6%, 4.6 times greater than the white unemployment rate which stood at 6.8%. Studies have also indicated that at least 500, 000 jobs have been lost since 1994 to 1999 (Schneider, 2003: 45). The effects of unemployment in South Africa did

not only have an effect on the socio economic front, but was hurting economic growth in general.

By the year 2000 Trevor Manuel admitted that the government was not capable of creating jobs. There were two forces colliding in the mid-1990s with regard to labour and employment or production relations. The demand for top end skilled labour, as demanded by the corporate sector, 'neoliberalism' and technological innovations since the mid-1990s as opposed to trade union pressure favouring low paid workers, forming part of the forces of national labour and production (Nattrass, 2000: 12).

It was clear that GEAR was not living up to initial expectations (see table 2 below). Mboweni and Manuel became ever more sceptical of a neoliberal growth path and policies associated with the World Bank and IMF. It was not solving poverty, inequality and did not establish rapid growth (Magubane, 2004: 665). As stated by Hein Marais (2001: 168), GEAR was not meeting its growth targets but was stuck between two worlds. It was still holding on to maintain socially progressive targets and objectives as initially established in the RDP economic programme. But the standard elements of the path chosen via GEAR were closer to neoliberal orthodoxy. Historically there is a weak correlation between economic orthodoxy and job creation (Albo, 2005: 70). The state would have to become more directly involved in job creation, but this would mean that it would have to move away from neoliberal orthodoxy. This would be risky because it might alienate foreign investment and business confidence. With the liberalisation of the capital account, reliance on short and long term capital inflows was crucial to the economy.

Table 3.1: GEAR prediction versus actual performance (derived from Natrass and Seekings, 2001: 61)

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

Fiscal policy has since 1994 been focused on deficit reduction, improved financial control and accountability. Fiscal deficit has been lowered from 10, 1% of the GDP to 3% from 1993 to 1999. On the monetary front low inflation has been achieved, but foreign exchange reserves were low and there were three major capital flow crises in 1996, 1998 and 2001 (Beal *et al*, 2005: 695). According to Streak (2004: 286) inequality and poverty was not reduced by the GEAR macroeconomic strategy. Streak also contends that there was too much reliance on private sector investment to create growth. Integration into the world economy and global capitalism happened too quickly. Liberalisation lowered production costs, but in the late 1990s the government saw that it had to rely less on the private sector for redistribution and growth.

3.7 The role of the state

An important principle behind neoliberal theory is that the state's role should only be to regulate and govern efficient market behaviour. This is in contradiction to Keynesianism or the welfare state with its commitment to full employment, especially with regard to social policy and the more direct role of the state. In South Africa the ANC government made promises to improve the welfare of the South African citizens, historically marginalised by the *apartheid* regime.

Despite the ANC government's commitment to neoliberalism, the ANC never dropped the ideas of welfare provision and its historical role with regard to this. The GEAR drafters anticipated that GEAR would be portrayed by critics as evidence that the government was abandoning RDP goals. GEAR was packaged as strategy for achieving RDP goals and a redistributive focus was maintained with public expenditure in areas such as basic housing, water, sanitation and health services (Alence, 2004: 85). According to Eskom some progress was made between 1996 and 1997 in electricity provision, electricity was provided to 200 new households every day. By 1997 the community water supply delivered basic water supply to about 2 million people in disadvantaged areas. Safe water supply was provided to about 8,9 million people and sanitation delivered to about 100 000 people in this period (Habib and Padayachee, 2000: 257). Developments in post-*apartheid* South Africa also led to the improvement of rural health services and introduction of free primary health care to children under 5 including their mothers. In 1999 social pensions were provided for about 2, 5 million citizens. More than 5 million children have been immunised against measles and 5 million against polio (Marais, 2001: 189). The health department did however fail to spend the 40% of their 1999/2000 HIV budget for prevention and containment of AIDS. Subsequently, government withheld funding for azidothymidine (AZT) treatment to pregnant and HIV positive mothers (Marais, 2001: 192). This would haunt the ANC and especially Mbeki in the future.

Improvements on the education and house building front have not been significantly good. Between 1994 and 1997 about 192 000 houses were build. In 1998, 385 000 were build or was under construction. This fell short of the GNU's promises of 1 million houses by 1999 (Habib and Padayachee, 2000: 257). The focus to drive down the budget deficit to 3% of the GDP limited the funding available for social and economic spending. Regarding promises made about land reforms by the late 1990s the government lagged far behind the targets set in 1994. Of the 54 000 land claims lodged in 1994 only a 100 were settled by the late 1990s (Marais, 2001: 187). The government failed to establish a totally equal society, but it was more focused to establish economic stability. The establishment of a new black elite class was however achieved by Black Economic Empowerment (BEE) and affirmative action policies.

The BEE policies and state expenditure on social services are not totally neoliberal in character or at least to the role the state should play. The rationale behind state intervention with regard to BEE was that black companies did not stand a good chance against their white counterparts with regard to experience and capacity (Deegan, 2001: 124). The counter argument to BEE especially through a neoliberal or mainstream economic orthodox perspective is that governments prescribing race and gender of quotas in private business rallies against competitive advantage. Interference with management in business denies the freedom to appoint the most suitable people for the job (Venter, 2005: 40).

As Freund (2007: 662) states, one aspect of the development state is direct state involvement in economic and social policy. This may include state ownership of major industrial, infrastructural and financial structures and also includes institutional formation and interventionism. The idea of creating new business elites or at least the effort to create a new business class sits well within the characteristics of a developmental state. Within the South African context BEE has helped with the consolidation of the ANC's position in business and the private sector (Freund, 2007: 664). BEE has become key instrument to the government's strategy to establish control over the state and marginalising the forces representing the left in the tripartite alliance COSATU and the SACP (Andreasson, 2006: 313). Corporations and businesses controlled by blacks or the financial and private sector in general have benefited from the tax concessions, lowering of inflation and privatisation programmes as helped along by economic policies since the early to mid-1990s. Benefits have also emerged from exchange control liberalisation and the 'opening up' to new export markets and investment opportunities (Habib and Padayachee, 2000: 258).

Reinventing governance is an element of neoliberal consensus as indicated by Cerny *et al* (2005: 17) The role of the private sector in outsourcing services and development of public private partnerships has been part of neoliberal economic protocol since the late 1970s. Since the mid-1990s privatisation in South Africa took on a systematic character with the establishment of the Municipal Infrastructure Investment Unit (MIIU). This initiative enabled the penetration of private capital in the provision of public services in South Africa (Narsiah, 2002: 7). The Municipals Systems Act no. 32 of 2000, Municipal Structures Act no. 117 of 1998 and a host of other documents created the space for the role of the private sector in provision of public services. Public-private partnerships have become a feature in South Africa. The privatisation of public services however places the means of production of

services in private hands. This obviously has an effect on labour and the loss of jobs (Narsiah, 2002: 7). Public-private initiatives and local partnerships are controlled by multinational companies not always seeking local employment or national labour.

3.8 The ANC government and first decade of post-apartheid economic reforms

Within the South African context markets and market institutions already existed before 1994. The financial sector was sophisticated and globally linked regarding commerce and communications. A powerful group of conglomerates and enterprises seeking a more market-led approach was already established before democratic transition. The government was pressured from internal (private enterprise and financial sector) and external forces (global capitalism and financial institutions) to establish macroeconomic stability and global integration to facilitate private sector activities. The pursuit of a stable macroeconomic environment was characterised by keeping foreign debt levels low, keeping domestic debt levels within acceptable limits and keeping inflation within a manageable range. This macroeconomic focus was established despite the slow growth of the economy, rising unemployment, poverty, inequality and a racially skewed provision of infrastructure and service delivery. Financial institutions like the IMF and World Bank did not enforce structural adjustment programmes in South Africa but influenced the government and ANC leadership through moral persuasion (Habib and Padayachee, 2000: 260).

GEAR established macroeconomic stability but failed to deliver on establishing economic growth and job creation. Despite this growing uncertainty Mbeki promised that the GEAR economic strategy would deliver in the long run. The ANC government's economic policies from 1994 till 2000 were dictated by and favoured the financial bloc in defiance to social development (Gumede, 2005: 94) The majority of the ANC's support base, the poor and marginalised did not significantly benefit from first decade economic orthodoxy, favouring minimal state intervention and the financial bloc. The adoption of GEAR and liberal policies favouring the deregulation of the market led to exposing productive and labour industries to global competition. In contradiction to the 'hyper-liberal' economic policies some benefits were experienced as result of state intervention and welfare redistribution.

By the late 1990s and early 2000s the ANC government began to see the need for a developmental state. Within this time Mbeki was beginning to realize that the GEAR macroeconomic strategy was not delivering as it should have been. Mbeki started propagating

different ideas to different groups within the economic spectrum. For instance at the 1999 launch of the Africa Renaissance institute and the 2000 South Summit in Havana, Mbeki became critical of the capitalist system and the global inequality created by it, in his statements on the world stage (Magubane, 2004: 666). At other times Mbeki was taking a different stance. At the 1998 speech before the corporate council on Africa and in his 2000 speech before the US/SA business council there was scarcely a mention of inequality as a feature of global capitalism. Patrick Bond (2004) has identified this duality, on the one hand calling for economic reforms and on the other stating that there is 'no alternative' to globalisation as 'talk left walk right'. The rationale behind this statement is that the ANC government and Mbeki was trying to keep 'the people' (or at least marginalised section of society) happy, but on the other hand promoting business and neoliberal interests. As also observed by Pdraig Carmody (2002: 258) the South African state's attitude regarding globalisation has to a certain extent been a contradictory one. On the one hand being 'hyper-liberal' in pursuing extremely tight fiscal policies and cutting tariffs more deeply than required by the WTO and on the other hand introducing strict labour market regulation by implementing the Labour Relations Act no. 66 of 1995.

3.9 Conclusion

Szeftel (in Andreasson, 2006: 307) suggests that the ANC had three broad options when it took power in 1994. The ANC could have chosen the 'revolutionary path' engaging in comprehensive redistribution directly confronting domestic and capital interests. It could have embarked on a 'radical reforming path' where liberal political institutions were combined with high taxation and spending along with nationalisation as promoted by the Freedom Charter and to a lesser extent the RDP or a 'neoliberal option' as symbolized by GEAR with reliance on linking up to the global economy and improving competitiveness to promote growth and development in the long run.

Southall (in Andreasson, 2006: 307) believes that South Africa is not totally neoliberal or a 'minimalist state'. He states that South Africa is a 'pro-capitalist, interventionist state', with some welfare and direct state intervention tendencies. However the general package of economic policies adopted by the ANC emphasising fiscal stringency, foreign direct investment, further integration into global markets and market solutions to problems of uneven development could be considered as predominantly neoliberal.

Chapter 4

Economic Policy and Discontent in South Africa

4.1 Introduction

Albo (2005: 63) states that through a Marxist or critical perspective neoliberalism and the implementation of orthodox economic policies are not flawless and will not always lead to economic prosperity. Raising debt levels, budgetary and current account deficits and persistently high levels of poverty and labour reverses have been features of post-Cold War global capitalism. Financially excessive tendencies have also caused instability within the current but waning orthodox economic order. This chapter will focus on how the South African economy developed since the late 1990s and how internal struggles came to influence the South African political economy. The following section will give an overview of the partial failure of the GEAR macroeconomic programme and how the ANC government tried to address this. Section three will then look at the problems of the two nations of dual economy in the country and section four will look at marginalised social forces.

Section five will give an overview of how the internal struggle within the tripartite alliance and the rise of social discontent led to a leadership struggle in the ANC party and tripartite alliance, eventually leading to the victory and election of President Jacob Zuma in 2009. The last section of the chapter will look at the New Economic Growth Path's framework and compare it with GEAR to determine whether there has been a significant shift in economic policy thinking in South Africa.

4.2 The partial failure of GEAR and shifts in economic policy formulation in South Africa

By the early 2000s it was evident that GEAR did not live up to all the expectations of its architects in its aims to enhance growth, employment or redistribution. Between 1996 and 2001 the economy grew by 2, 7% instead of the originally envisaged 6%. Employment shrank instead of growing by 3% and between 1996 and 2001 about one million jobs were lost largely because of the GEAR macroeconomic structure and economic liberalisation. Labour saving technologies, outsourcing and a market shift towards using contract labour contributed to the increasing unemployment levels (Visser, 2009: 235). Welfare and health spending budgets also fell in the early 2000s. This led to increased marginalisation of the poor, held hostage by lack of opportunities to improve their social conditions, as a result of

unemployment. Factors such as violent criminal behaviour and contagious diseases have also played a part in worsening social conditions, thus influencing the effect of marginalisation even further.

The home grown structural adjustment stabilisation policy in the form of GEAR aimed at targeting pre-1994 economic problems such as large domestic debt and high inflation and was not delivering up to expectations. Large inherited domestic debt had since 1994 led to a slowdown in state investment, discouraging private sector investment leading to the decline in South Africa's productive capacity and reducing the manufacturing of consumer and capital goods (Turok, 2008: 245). The Asian financial crisis as a result of the financial collapse of south-east Asian states in 1997/1998 made matters even worse and private sector investment dropped from a 6, 1% growth rate to a minus 0, 7% rate (Visser, 2009: 235). GEAR was a sound macroeconomic strategy based on solid economic fundamentals, but something else was needed for economic development in South Africa. As observed by Harvard Business School economist Eric Werker "South Africa was doing everything right. They had liberalised the economy. The economy was managed spectacularly. They had undertaken all of these standard prescriptions that the World Bank or the IMF would have advised for countries to receive more foreign direct investment. But, interestingly, it was slow in coming" (Werker quoted in Turok, 2008: 247).

The ANC's economic strategy as envisioned by GEAR portrayed classic macroeconomic orthodoxy and fiscal responsibility in line with neoliberal ideology. The architects of GEAR claimed since the beginning that when macroeconomic stabilisation was attained, the ANC would shift its focus to amend its economic strategies to provide for the marginalised sections of society (Southall and Webster, 2010: 146). The ANC inherited one of the most economically unequal societies in the world. The ANC government also had historical ties and promises in maintaining the goals set by the Freedom Charter and National Democratic Revolution during the struggle against *apartheid*. But as chapter 3 of this thesis reveals, the ANC government has been rather reformist and not revolutionary in belief, committing itself to neoliberal economics and orthodoxy (Turok, 2008: 249), even despite the warnings by economists such as Joseph Stiglitz regarding the neoliberal hegemony and post-Cold War capitalist system. In the period when he was still chief economist of the World Bank, he warned about the effects of the Washington Consensus and neoliberalism, making demands for macroeconomic reforms and stability with focus on reducing inflation, the lowering of

national budget deficits, trade and market liberalisation, etc. (Turok, 2008: 250). Transition and a shift in the economy did, however occur in the early 2000s accompanied by reforms and important shifts towards social welfare. The basic fundamentals of the economy and society did not change.

In 2001 announcements were made that changes in the GEAR strategy to a more interventionist stance on infrastructural investment, industrial policy and labour market interventions were to be implemented, envisioning South Africa as a developmental state. This different approach in thinking within the ANC leadership did not occur spontaneously, but was a result of changing global conditions and the post-Washington Consensus debates that were provoked by the Asian financial crisis, in combination with pressure from within the ANC and tripartite alliance and also national social discontent and protests and the failure of GEAR meetings its targets (Hart, 2007: 684). The Mbeki government responded with a new industrial strategy that took off in the early 2000s. Plans for a social security system were established at the 2002 ANC Stellenbosch conference. A more flexible monetary policy focusing on job creation, investment and poverty eradication has been ANC policy since 2002. Since 2004 the Mbeki administration started focusing on an Expanded Public Works Programme (EPWP). The expansion of the social grant system also happened within this period (Marais, 2011: 348).

Reforming state ministries and agencies to operate according to the same efficiency standards as a successful business is very important within an economic orthodox paradigm. Reinventing governance is another part of neoliberal orthodoxy, especially outsourcing services (Cerny *et al*, 2005: 16). Since 2002 more emphasis has been placed on the role of state-owned enterprises in stimulating growth and key institutions in the economy have remained under the control of the South African state. The weakening of the Washington-Consensus in the late 1990s at global level and efforts by the trade unions, including COSATU's campaigns against privatisation locally, have slowed down privatisation projects, especially at local government level in South Africa. The state has remained in control of the Industrial Development Corporation and the South African Development Bank. A great deal of the rail and harbour system as well as infrastructure is still under state control (Marais, 2011: 348).

A large portion of TV and radio stations and the only electricity supplier of the country, Eskom are also under state control. Coordination between the private sector and state-owned business has not been very effective in South Africa. For instance from 1994 up to 1999 there were some efforts to encourage investment in Eskom and private enterprises would build new, more efficient power stations (Turok, 2008: 255). The private firms interested wanted the government to take all the risks while they would benefit financially. Contracts were not rewarded and Eskom was instructed to invest in expanding power supply on its own. The result was delays and a severe shortage of capacity leading to power cuts, especially in 2008.

In line with the shifts in economic strategy since the early 2000s and establishment of economy equality, the ANC government has not totally abandoned its social contract with the marginalised and lower class sections of society. The government is still active in welfare provision, emphasised by the social grant system. A large and expanding system of social grants and social assistance have been supplied by the state, mainly reflected by the state supplied old age pension (Fergusson, 2007: 77). The social assistance system was established historically by the *apartheid* government's highly developed, but highly racist (exclusively for whites) sense of state responsibility in social provision. The ANC inherited a reasonably well developed system of social pensions and after the 1994 elections the pension system and system of social grants would become available to all South Africa's citizens. A substantial raise in black pensions were developed for women over the age of 60, and for men of 65 years or older. Other state grants are the disability grant for persons older than 18, who are medically certified as disabled, the foster care grants for parents of foster children, and the care dependency grant for parents of a disabled child and caregiver for children less than 7 years of age (Fergusson, 2007: 77).

In 2005 more than 10 million people were receiving grants at an annual cost of R48 billion. The social grant system had been hugely increased since 1994. At that time the figures shows that there were 2, 6 million beneficiaries and the budget was R 10 billion in expenditure. The ANC government has come to realise the importance of social grants in restraining an otherwise potentially explosive situation made worse by poverty and inequality (Fergusson, 2007: 78). A big problem regarding social grants in South Africa is that it is aimed at the well being of individuals. It has however ended up in supporting, not only individuals but rather large, multi-generational households.

Social policies and social grants led to the development of a situation where a huge proportion of the population is perilously dependent on the system for basic survival (Visser, 2009: 239). By 2007 almost one third of the country's households, especially poor households have become dependent on state grants for survival. Social grants have not fully established the conditions needed for economic equality and stability in South Africa, or at least in helping with basic provision for the section of society that would benefit the most from the social grant system. Community protests in townships and informal settlements increased from 5 800 between 2004 and 2005 to 10 000 during 2006 (Gumede, 2008: 263). South Africa would need high economic growth rates to address problems such as unemployment, social marginalisation and infrastructure development. By 2007 South Africa's growth rate was at 4, 9 % of the GDP. It was an improvement over previous years, but it was still lagging in productive sectors, which constituted only 27% of the country's GDP (Turok, 2008: 257).

4.3 The state and the dual economy problem

The lack of investment by the state in infrastructure and the maintenance and expansion of it has led to a lower amount of foreign investment and exploitation and dependence on South Africa's abundance of natural resources (Turok, 2008: 254). The country has remained dependent on the export of primary commodities and has not benefited from price booms on the international markets as extensively as other developing countries. By 2005 South Africa resembled two different countries with regard to economic development and infrastructure. Dividing the country into two distinct sections was part of the legacy of *apartheid* with one section of the country being based on a stable political system as well as a liberal constitution that is defended by independent courts. The holding of regular, free and fair elections plays an important role. Economically the private sector is encouraged by a pro-business government in this section of the dual economy. Since 1994 economic growth has been achieved much faster than under white rule and larger amounts of foreign investment have been attracted by opening up to global markets and trade liberalisation. Multilateral interaction especially on the African continent has been established with Mbeki's African renaissance visions. NEPAD has been an important institution in promoting economic and financial development in Africa (Bond, 2005: 233).

The establishment of a new black capitalist class and pro-business macroeconomic stabilisation programmes has been part of the post-*apartheid* South African success story. The *Sunday Times* of 9 July 2006 reported that South Africa produced 5 880 new dollar millionaires during 2005, the highest per capita increase in the world (Hart, 2007: 688). This all forms part of a highly developed capitalist system and well developed private sector and infrastructure. The number of African households in the high-middle and high income groups have increased to the number of 440 000 between 1998 and 2004. The only country growing millionaires faster than South Africa is Singapore (Turok, 2008: 250). The increases in rewards for senior executives are also dramatic in South Africa and in 2005 the CEO of Eskom received a basic salary of R 3, 8 million and a bonus of R 9, 3 million. A study reflecting income of managers worldwide has shown that South African managers are receiving incomes equal to managers in the USA, Australia and Japan. In countries such as France, India, Norway, Sweden and Finland executive managers are much worse off (Turok, 2008: 253). South Africa's interest and expansion into Africa, especially under Mbeki, have also proven their benefits. The South African Reserve Bank estimated that South African firms invested \$ 1, 2 billion to \$ 4 billion a year by 2001. Between 1994 and 2003 South African exports to the rest of Africa rose from R 8, 6 billion a year to R 38, 8 billion, (\$ 5, 1 billion) (The Economist, 2005).

Unfortunately economic growth in South Africa has not yet achieved high enough levels to lift the country out of poverty or address the huge structural inequality problems. Many attempts to improve prosperity in South Africa have only led to the enrichment of a few top level officials and patriarchs (Herbst, 2005: 93). In 2005 about 45% of the then 44 million people were impoverished. Unemployment had increased by more than 3 million and economic growth has not been good enough to reduce chronic unemployment and poverty. Unemployment rose from 4 million in 2000 to 8 083 000 in 2004 and this must be seen in contrast to about 12 million employed persons in South Africa. By 2008 unemployment figures in South Africa stood at about 26% and when compared to 9, 3% for Brazil, 7, 6% for India, and 9, 8% for China it does not reflect a good picture (Turok, 2008: 251). Another factor influencing inequality in South Africa is that the share of the employed section of society's effect on the GDP has fallen from 57, 2% in 1990 to 49, 9% in 2006 (Turok, 2008: 251).

Since the 1980s the South Africa population has also been severely struck by the AIDS pandemic. Since the mid-1990s the country's problems with regards to AIDS have been made even worse by the government's response to it. The Mbeki government's response to AIDS has been shocking in first refusing to acknowledge the link between HIV and AIDS and secondly their insistence to treat the disease by homemade remedies and not via proper medical treatment (Marais, 2011: 262). One out of six with HIV people globally live in South Africa and one out of six who dies of AIDS is buried in South Africa. By 2009 there were 5, 2 million people in the country living with HIV. This amount is higher than any other country in the world. The falling standards in public services such as health would become one of the factors that would lead to opposition against Mbeki. Hein Marais (2011: 262) states that AIDS and TB epidemics have become a ruinous part of South Africa's transition into a post-*apartheid* democracy.

President Mbeki identified the division of South Africa in 'two economies', the two being structurally disconnected. The one part of the economy has a modern and prosperous industrial, mining, agricultural and financial sector. It also has a technologically advanced service sector that is performing efficiently (Marais, 2011: 194). The other part of the economy is underdeveloped and marginalised and the ANC government has shifted focus towards economic inequality and marginalisation. Mbeki has also used racial accusations when referring to the 'two nations' or 'two economies' arguing, blaming and emphasising white prosperity exists because of black poverty. The post-1994 newly established black capitalist class was also targeted as part of the 'culprit' group by President Mbeki. The accusations were in a sense tactical in trying to cover the real economic problems and lack of government response to it. Identifying the economic problems and blaming the economic elites did and will not solve South Africa's economic problems, the biggest problems still being job creation and economic inequality (Iheduru, 2004: 24). At the time of the 2004 general election the ANC government was stuck in the middle of an economic policy promoting a pro-RDP stance and pro-GEAR, talking about establishing welfare and equality, but on the other hand pampering the private sector and business enterprises.

By 2005 achievements regarding social and financial conditions have been established by the ANC government, but a big problem was the lack of state spending on maintaining infrastructure, such as electricity, roads, railways and ports (Turok, 2008: 254). This had a general impact on industry with specific focus on mining, agriculture and manufacturing.

Mbeki had genuine concerns about the persistence of the 'two economies' divided by wealth and poverty. Mbeki also used the state and government structures to consolidate his own power, with a fierce desire for party discipline and centralised party control. Moeletsi Mbeki stated in 2005 that Thabo Mbeki had become a stubborn and a self-righteous president who was moving away from the ANC's historical tradition with his aims of a modernist, social democracy, instead establishing a capitalist black conscious party promoting the interest of only one racial group (The Economist, 2005). The government's lack of spending on infrastructure, jobs and focus to create equality would have an effect on especially the marginalised or poor section of society.

4.4 The rise of social movements and social discontent in post-apartheid South Africa

The rise of social forces has increased dramatically since the bitter economic performance of the 1990s. The rise of the first round of post-*apartheid* social movements coincided with 'bottom up' or local level social resistance to neoliberalism on a global scale. Many resistance movements opposing neoliberalism and neoliberal capitalist order have established themselves since the early 2000s (Hart, 2007: 681). Robert Cox (2004: 309) has identified social forces as part of the configurations of power in the twenty first century. Social forces and civil society differ from 'imperial' or the global hegemonic forces and the modern state system. Cox (2004: 310) states that civil society and social forces operate in decentralised networks rather than a disciplined hierarchal structure. To a certain extent it shares a mutual relationship with the state system, rivalling it in one sense but on the other hand seeking to strengthen it as a system, responsive to popular initiatives. Elisabeth Jelin defines social movements as forming part of collective action with a high degree of popular participation, which use non-institutional channels to formulate demands while simultaneously finding forms of action to express them, thus establishing themselves as a group or social category (Ballard *et al*, 2005: 616). Social movements exist largely within the sphere defined as civil society.

Social struggles in South Africa emerged very quickly and coincided with the second democratic election in South Africa and the ascent of Thabo Mbeki as the new South African President in the late 1990s and early 2000s. Ballard *et al* (2005: 616) has identified three major developments that have played a very important part in the development of social

struggles in South Africa. The first is COSATU's⁶ opposition to the GEAR economic programme and the way in which the GEAR strategy has promoted trade liberalisation and an economic growth path with focus on the private sector. Secondly, struggles with regard to service delivery and the government's partial failure in service delivery, has led to the establishment of new social movements, for example the Landless People's Movement (LMP) and the Treatment Action Campaign (TAC) (Ballard *et al*, 2005: 616). The LMP's main focus is on the government's slow response to land redistribution since 1994 and the TAC's main focus is against the failure of the government finding an adequate response to the HIV/AIDS crisis (Ballard *et al*, 2005: 616). Thirdly resistance has also emerged to challenge the ANC government's policies directly and to resist government's attempts at repression. Examples of these types of movements would be the Soweto Electricity Crisis Committee (SECC), the Concerned Citizens Group (CCG) and the Anti-Eviction Campaign (AEC). All of these groups have attempted to organise the poor and marginalised sections of communities to resist local, provincial and national government (Ballard *et al*, 2005: 616).

Problems and aims established by social movements have resulted in a massive diversity of concerns ranging from land equity, gender, sexuality, racism, the environment, education, formal labour, informal labour, access to infrastructure, housing eviction, HIV/AIDS treatment, crime and safety, debt and geopolitics. The main social movements established during the late 1990s are the Homeless People's Alliance, the TAC (1998), Concerned Citizens Forum (1999), Anti-Eviction Campaign, Anti-Privatization Forum, SECC (2000), the Landless People's Movement, Coalition of South Africans for the Basic Income Grant and the Education Rights Project (Ballard *et al*, 2005: 623). The national government has in a sense devolved itself against the responsibility for the delivery of many services to local government without increasing their budgets. This has led to the outcome that local governments must subsidise themselves in the delivery and provision of services, thus creating problems and the lack of service delivery at local level.

Privatisation has also further led to the loss of jobs at local level and the unemployed and poor citizens in the country are unable to pay for basic services such as water and electricity as well as rent and mortgages. This factor has led to the increase in marginalisation worsened

⁶ To clarify within the context of this section focusing on social struggles, COSATU is not a social movement in the same sense as for instance the LMP or TAC, but it is an established trade union federation, also benefiting materially as a result of its position in the tripartite alliance. COSATU is institutionalised and operates through the formal institutionalised channels.

by evictions, disconnections and retrenchments (Desai, 2003). Community movements or 'movements beyond movements', have become more active since the early 2000s. These movements challenge and raise concerns with regard to water and electricity cuts, evictions and demands service delivery not only because of poverty, but as a direct response to inadequate state performance. The most prominent aims, demands and protests have originated against the state's inability or unwillingness to be the provider of public services. Violent protests after the national election in April 2004 have become ever more prominent. The Minister of Safety and Security stated that in October 2005 the department recorded 881 illegal protests during the 2004-2005 financial year (Hart, 2007: 682). During this period there were about 5 085 legal protests. Municipal protests subsided in March 2006, but by early 2007 it increased and became more violent. The main focus of these protests have been against local government's failure to deliver basic services and housing, but it is important to mention that grievances and protests stretch well beyond only service delivery and dissatisfaction about inequality and marginalisation.

Historically the ANC promised an equal and better society for all, as envisioned by the Freedom Charter (1955) during the struggle against the *apartheid* regime. Since 1994, but especially since 1996 it seems that promises of such an equal South Africa have become ever more unreachable. By the 2000s the poorer section of the South African society saw this as a betrayal of the ANC ideals and historical promises. This would lead to the rise of Jacob Zuma since 2005 and the left-populist coalition that formed around Zuma, especially in the 'succession debates' and upheavals between the ANC, SACP and COSATU in the run up to the ANC national conference held in December 2007 (Hart, 2007: 682).

When looking at South African economic policy, social movements and resistance towards neoliberalism definitely had an effect on the reaction of the government towards neoliberal policies and strategies, especially regarding changes regarding the GEAR strategy (Hart, 2007: 684). The key feature regarding this shift is the interconnection between the state and civil society having a transforming effect on one another, thus forming a demand for new or different policies to those offered by neoliberal orthodoxy (Hart, 2007: 684). The post-*apartheid* economic programmes followed since 1994 were rather more focused on macroeconomic stability and the implementation of the market fundamentals as promoted by the Washington Consensus. Since the early 2000s orthodox economic policies were not solving problems with regard to unemployment, poverty and inequality. A strategy was

needed to tackle the economic dualism within society by addressing underdevelopment in especially the urban townships and former *apartheid* homelands (Turok, 2008: 246).

By 2004 the ANC government saw that something special was needed to achieve development and equal growth in the South African economy. The Accelerated and Shared Growth Initiative for South Africa (AsgiSA) was a revamped framework for economic growth in South Africa implementing many elements of the GEAR strategy, but with greater emphasis on infrastructural investment. AsgiSA also set more acceptable standards and opportunities for small and medium sized business in South Africa and was a reflection of a shift in thinking away from strictly following the policies of the GEAR strategy. The idea behind AsgiSA symbolically portrays an economic transition from GEAR to finding an alternative economic strategy. Ironically trade unions and the MERG group called for such a programme in the early 1990s.

In line with this initiative AsgiSA focused on public funds to rehabilitate and expand infrastructure to extend the public works programme. Public sector investment was to increase to 8% of the GDP and a large share would go to public sector enterprises like Eskom and Transnet (Marais, 2011: 148). The government planned to establish a R 846 billion programme to upgrade and expand transport infrastructure aimed at boosting electricity production and provision. The public health system, under pressure from the world's worst Tuberculosis (TB) and AIDS epidemics, would also receive more attention. AsgiSA would also give more attention to the provision of water and sanitation and targets have been established to halve poverty and unemployment by 2014 (South African Government Information, 2006).

Interventionist policies, as was historically promoted in the post-1994 period by programmes such as the MERG report, became more appealing from the late 1990s as trust in the Washington Consensus and global capitalist order waned (Marais, 2011: 148). The idea of AsgiSA was a shift away from the GEAR agenda, with more focus on boosting the infrastructure and promoting the manufacturing and financial sector, creating jobs through economic growth. To a certain extent AsgiSA was reflecting the initial objective the GEAR architects had in mind for long term economic growth in South Africa. As stated by Lucien van der Walt (2009), Mbeki was focusing to liberalise, rationalise, privatise, industrialise and that would eventually supposedly lead to job creation.

4.5 Zuma vs Mbeki and internal struggles within the tripartite alliance

The unbanning of the ANC in 1990 and its success in the 1994 and 1999 elections led to the dominance of the ANC over both tripartite members the SACP and COSATU. Instead of incorporating the SACP and COSATU's insistence on redistributive economic policies, the ANC choose a more orthodox economic path marginalising COSATU and the SACP and ideas of nationalisation and redistributive programmes (Webster and Buhlungu, 2004: 236). As already mentioned in chapter 3, the GEAR macroeconomic strategy asserted the dominance of the ANC, following a programme close to neoliberal economic policies. This led to tension in the tripartite alliance and by the late 1990s/early 2000s this tension within the alliance started to show. In 2001 COSATU launched an anti-privatisation campaign. The ANC's National Executive Committee (NEC) responded negatively stating that the 'ultra left' tendencies of COSATU have transformed the trade union into a political formation independent of the ANC (Webster and Buhlungu, 2004: 236). Two bilateral meetings were held between COSATU and the ANC on the 12th of January and 9th of February 2002 to defuse the public conflict between the ANC and COSATU for a while at least, but public tension between the ANC and COSATU started flaring up again in October 2002.

The timing of tensions within the tripartite alliance coincided with the rise of social forces from outside the tripartite alliance, modelled on the anti-globalisation movements that emerged from protests in Seattle in 1999 (Webster and Buhlungu, 2004: 236). With the rise of decentralised social movements at global level and more importantly local mobilisation and mass resistance against neoliberalism, COSATU grasped the opportunity to devise a strategy to recapture power within the tripartite alliance. COSATU's strategy and tactics would firstly be based on mass mobilisation focussed on opposition to privatisation. Secondly it would focus its political strategy in an attempt to recapture the ANC by contesting the Mbeki camp dominating the ANC party and the tripartite alliance (Webster and Buhlungu, 2004: 236). Even though pressure was building within the left since the late 1990s and despite the marginalisation of the leftist forces within the tripartite alliance, COSATU's loyalty to the alliance was still high, but support had gradually dwindled over the years. By 2004 66% of COSATU's members still backed the ANC, but support has gradually decreased over the years from 82% in 1994 to 70% in 1998 (Marais, 2011: 438).

The other main tripartite alliance member, the SACP, had incorporated a hybrid of various ideological standpoints, but by the mid-2000s it was moving closer to firmly align itself with socialist aspirations. However the SACP had to be careful in its stance towards criticising GEAR and neoliberal or ‘hyper liberal’ economic policies associated with it. Especially as a result of political interests and also positions held by some of the high-ranking party members that were involved in the implementation of neoliberal policies, including Alec Erwin, Fraser-Moleketi and Jeff Radebe (Thomas, 2007: 129). The SACP took a more moderate stance against the ANC in the early 2000s, prioritising the maintenance of ANC-dominated tripartite alliance. The SACP was also less involved in mass mobilisation against the ANC government, but rather tried to influence ANC decision making from within the tripartite alliance (Thomas, 2007: 135).

Even with the SACP and COSATU still being loyal to the ANC government and the tripartite alliance, it was clear that a shift in power was needed in the ANC. By 2006 ANC government under the leadership of Thabo Mbeki was failing to deliver to the marginalised sections of society, HIV/AIDS policies were inadequate and unemployment figures were alarmingly high. ANC supporters became aware and more dissatisfied with economic policies that were only benefiting the previously advantaged white middle class, black economic empowerment tycoons and black middle class (Gumede, 2008: 262). COSATU and the SACP knew that they had to rally behind an individual candidate for the party presidency and that this candidate would have to appeal to the masses beyond the ANC. This candidate would represent himself in the form of Jacob Zuma.

Jacob Zuma was sacked as Deputy President of South Africa in 2005 after his close friend Schabir Shaik was jailed for fraud as part of the arms deal corruption scandal. Zuma was also accused of racketeering, corruption, money laundering and fraud and was supposed to stand trial on 16 charges in August 2008 (Gumede, 2008: 262). Zuma with his back against the wall would rise out of the ashes with the backing and support of the ANC alliance partners COSATU and SACP, to rally popular support against Mbeki. Zuma received his support as a result of dissatisfaction and grassroots discontent with Mbeki, eventually leading to the ousting of Mbeki at the national conference in Polokwane in 2007 and Jacob Zuma becoming South Africa’s president in 2009.

Zuma's support was in the form of a left-populist alliance that consisted out of grassroots activists, trade unionists, socialists, unemployed youth, veteran guerrilla fighters, women's lobbies and the left-wing of the ANC tripartite alliance including COSATU and the SACP and organisations such as the Young Communist League (Gumede, 2008: 265). Blame fell on Mbeki and the ANC government's failure to equally distribute wealth to the poor and marginalised masses. Neoliberal growth strategies such as GEAR and centrist economic reform policies have taken the blame for worsening economic inequality. Mbeki has also been blamed for restructuring the ANC into a modern governing political party with liberal social democratic values at the expense of its historical roots as a left-wing liberation movement.

Mbeki and leading ANC figures routinely denied or dismissed economic and social problems in South Africa. Weeks before the ANC's 2007 conference Mbeki even dismissed a survey which reported that the number of people in poverty rose from 1, 9 million in 1996 to 4, 2 million in 2005. The statistic was based on the number of people living with an income of less than 1 US dollar per day. Mbeki dismissed this figure as 'unlikely' because it was 'too high' (Gumede, 2008: 263). Mbeki's views were seen as out of touch and uncaring by many ANC supporters.

Zuma in contrast to Mbeki's elite driven and modernist management style portrayed himself as a more caring and empathetic figure. Zuma had a track record of uniting the people or more specifically the poor and marginalised section of society. Zuma also played a big role in establishing peace between the Inkatha Freedom Party (IFP) and ANC prior to the 1994 general elections (Southall and Webster, 2010: 149). Zuma cultivated himself as a man of the people, an Africanist and a traditionalist. He has also been portrayed as a victim of Mbeki's political persecutions with the fraud and corruption trial and a rape trial in late 2005. Many of Zuma's supporters saw the rape accusations as an Mbeki conspiracy against Zuma (Southall and Webster, 2010: 149). The SACP and COSATU saw in Zuma somebody that would be easier to control than other individuals within the ANC leadership.

Mbeki was ousted as the South African President at the ANC's national conference in Polokwane in December 2007 and Kgalema Motlanthe would become the new acting President. Motlanthe's presidency was mainly a ruse to indicate that a split in the ANC government did not occur. A split in the ANC did however occur and that was emphasised by Mosiuoa Lekota and Mbhazima Shilowa's break away from the ANC and formation of the

Congress of the People (COPE) party (Marais, 2011: 374). Zuma was elected as the ANC President at Polokwane and would officially become South Africa's President after the 2009 national election, with the backing of the SACP, COSATU and mass based ANC support behind him (Marais, 2011: 364).

COSATU and the SACP gave their support to Zuma, in return the ANC had to adopt pro-poor policies. The ousting of Mbeki at the December 2007 Polokwane national conference and eventual election of Jacob Zuma as ANC President in 2009 shifted the balance of power in the tripartite alliance and top leadership of the ANC into the hands of the pro-Zuma, left-populist group. The election of a new economic policy team with SACP member Mr Pravin Gordhan as Finance Minister and other left wing supporters including Rob Davies as Trade and Industry Minister and Ebrahim Patel as Minister of Economic Development, seemed to indicate that there would at least be some policy shifts as a result of the Polokwane conference (Berger, 2009).

Trevor Manuel was replaced by a new Minister of Finance Pravin Gordhan and Tito Mboweni has been replaced as head of the central bank by Gill Marcus. Even with these changes the South African economic policies has not seen a very dramatic change with regard to fiscal and monetary discipline. Hein Marais (2011: 441) states, in terms of economic policy the left in South Africa does not really have much to show for their pro-Zuma support since 2005. At the October 2008 tripartite summit meeting it was established that the post-Mbeki ANC government policies would be more focused towards state interventionist policies to help the poor and marginalised sections within the South African society and would be more acceptable and compatible with the goals of the leftist forces within the tripartite alliance (Visser, 2009: 239). But as Lucien van der Walt (2009) stated, COSATU's support for Jacob Zuma was well intentioned but rather ill informed and quite dangerous for the unions. Zuma stated to the United States Chamber of Commerce in November 2008 that the ANC government was proud of its fiscal discipline, its sound macroeconomic management and the general manner in which the South African economy have been managed.

The question might be asked who were the victors of Polokwane then? COSATU's leaders played a vital role in the Zuma camp's victory in 2007 and 2009. The relationship with ANC leaders has improved since the Mbeki era, but the balance of power in the tripartite alliance is still firmly in the ANC's hands (Van der Walt, 2009). Two years after the Polokwane 'coup'

against Mbeki the new government's performance have not really lived up to the expectations of establishing a better economic growth path within South Africa. The private and state sector is still focused on using casual and contract labour and the power struggle within the ANC has not brought significant change (Van der Walt, 2009). Unemployment is still a big problem and even with the economic growth and investment in 2010 over a million jobs have been lost. The newly built infrastructure and renovations have still been focused towards the richest section of society (Bond, 2010). A new hierarchy of crony capitalists especially surrounding the Zuma family and close friends, has been formed since 2009. By 2010 foreign debt in South Africa has reached \$ 85 billion and this has gone up from less than \$ 25 billion inherited by the Mandela government in 1994 (Bond, 2010).

From 1995 to 2008 South Africa's Gini coefficient has risen from 0.64 to 0.68 and 50% of the population lives on 8% of the national income (COSATU, 2010: 32). The provision of public health services, education and housing and basic service delivery to the marginalised section of society within the 'second economy' has been one of the biggest persisting problems within the political economy of South Africa. Patrick Bond (2010) states that in general only one major advance has come since Jacob Zuma became President of South Africa. The access to Anti-Retro Viral (ARV) treatment became available in South African public health facilities. This in part is an effect of the TAC battle against the Mbeki government and pharmaceutical corporations. ARV medicines that cost \$ 10 000 per person, are now free for the working class and poor South Africans. ARV's are now available and made locally in Africa and are not only available as expensive brands.

The Mbeki-Zuma battle and the ousting of Mbeki at the 2007 Polokwane conference re-established belief that the ANC would repair its image as a political and ideological force, maintaining the means to achieve broad-based consent and support in South Africa. But it is evident that South Africa and the ANC government have not yet achieved this outcome. Internal power struggles, patronage and greed have come to characterise the ANC government and it seems that power struggles, status and the improvement of personal wealth have become more important than improving the social conditions of the poor masses. Disillusionment among the marginalised poor in South Africa has increased as President Jacob Zuma has not fulfilled his populist election promises. Unemployment still remains high, with official figures estimated to be around 25%, but unofficially being nearer to 40% (The Economist, 2012a).

As stated by Hein Marais (2011: 390) the balance of power in the South African political economy still favours domestic and international corporate capital, particularly private sector conglomerates such as Anglo-American and De Beers that have rooted them deeper into the global capitalist system. The major winners in the post-*apartheid* economic system have been a few dozen conglomerates, active in the financial sector and tied to the MEC complex. Other sections of the South African society have also benefited from the post-*apartheid* economic system, mainly the middle classes and organised working classes. Economic gains have unfortunately not been distributed equally and the poor and marginalised section of society has suffered the most as a result. State intervention has played a role in the expansion of social wages, the cash grant system and public-work programmes especially since the early 2000s, but this has not been enough to solve persistent economic problems, especially poverty, unemployment and inequality (The Economist, 2012a).

4.6 The New Economic Growth Path, National Development Plan and ANC discussions of a ‘second transition’: A Shift in Economic Policy?

There have been some shifts and readjustments with regard to economic policy and focus on addressing ‘balance of power’ relations in South Africa since Polokwane. The National Planning Commission (NPC) appointed by President Jacob Zuma in May 2010 and chaired by Trevor Manuel has been given the task of identifying key issue areas (diagnostic overview) of the economy. The commission has also been tasked with producing a development plan, especially focused on addressing widespread poverty and extreme inequality (South African Government Information, 2012). The NPC released the National Development Plan: Vision for 2030 (NDP) in November 2011. Job creation and economic equality has been emphasised by the NDP, with aims to increase employment from 13 million in 2010 to 24 million by 2030. A restructuring of the economy away from reliance on the MEC to facilitate mass job creation is also an important focus point (South African Government Information, 2012).

The NDP favours more centralised management and a more active relationship between the private sector and the state in policy formulation. Emphasis is also placed on the state’s role in reacting to market failures. Social protection and welfare have also been recognised as areas in need of active state influence, especially with aims at reducing poverty and inequality. The NDP is committed in achieving and maintaining welfare provision through cash grants, free housing, free healthcare and education. The expansion of the role of state-

owned enterprises in training artisans and technical professionals has also been emphasised (South African Government Information, 2012).

In November 2010 Ebrahim Patel released the framework for the New Economic Growth Path (NEGP). South Africa's NEGP is set to focus on the creation of 5 million new jobs by 2020 and to reduce unemployment from 25% to 15% over the following 10 years from 2010 onwards. Job creation is a central focus point of the NEGP and the focus to address inequality and unemployment by unlocking new employment opportunities in the private market (South Africa Info, 2010). The global financial crisis of 2007-2008 and economic recession that followed claimed more than a million jobs in South Africa and has led to the official unemployment figures rising from 22, 5% to around 25% as a consequence. This has been a setback in the focus on job creation, but as stated by Collins Chabane, a minister in the presidency for Performance and Monitoring and Evaluation, the NEGP would try to enhance and exploit the opportunities that arose from the recession and identify itself closer with countries like China, India and Brazil as examples of growth (South Africa Info, 2010).

Six key sectors have been identified for creating employment in South Africa mainly focusing on infrastructure development, agriculture, mining, environmental or 'green' focus, manufacturing and tourism. Chabane and Ebrahim Patel, the Minister of Economic Development, agreed that the New Economic Growth Plan would need more than just the government and business sector to achieve economic growth. A renewed focus on land reform (agriculture) is an important area of focus within the NEGP and funding to create more self reliant businesses through private/public sector partnerships is an important area of focus (South Africa Info, 2010).

Infrastructure development will be focusing on five key physical and social infrastructure areas namely energy, transport, communication, water and housing. Focus on high levels of public investment would be aimed towards these sectors with the aim of creating jobs in construction and the maintenance of the infrastructure. A series of partnerships between the state and the private sector will be established and new ideas for production and construction using green energy and new technologies would be focused upon. Clean and new manufacturing and environmental services is projected to create around 30 000 jobs over the next decade (South African Government Information, 2010). In Agriculture a new focus on land reform and helping newly established farmers are goals of the NEGP. More support and attention will also be given to smallholders, giving access to supplies, seeds, silos, tractors,

finance, marketing basic services and service delivery. Aims in the establishment and development of infrastructure, industrialisation and full employment do not differ very much from the aims set out by the post-Second World War embedded liberal economic order (Cerny *et al*, 2005: 22).

Plans for the mining sector are to move away from the capital dependent focus on smelting and refining and to establish new focus on the manufacturing of consumer and capital goods (South African Government Information, 2010). Re-industrialisation of the South African economy based on improving manufacturing, skills development and innovation will be important in the decades to come. Seeking employment opportunities in different markets as for instance tourism will also be more keenly focused on in the years to come (South African Government Information, 2010). The NEGP also established that a somewhat looser monetary policy with lower interest rates will be followed. Foreign reserves are still important and the establishment of a sovereign wealth fund to manage foreign reserves more actively will be established. Support will be given to a competitive exchange rate while continuing to target a low and stable inflation rate (South African Government Information, 2010).

The NEGP calls for a broad pact or cooperation between business, labour and the government, with an objective of creating employment, enhancing competitiveness and social equity. This pact will commit itself to create new jobs and address inequality and proposes a modest increase above inflation for employees earning between R 3 000 and R 20 000 a month. Wage increases for those earning under R 3 000 would not be constrained, while increases for people earning above R 20 000 to R 45 000 would be pegged to the inflation rate (South African Government Information, 2010). The NEGP framework also states that high earners taking home over R 45 000 a month will see increases below the inflation or be capped. The government will still commit itself to maintain and improve provision of social grants and social wages regarding housing, healthcare and education. The ideas of a social partnership between the government, business and labour has some resemblance to that of the neocorporatist arrangements of state, management, bureaucrats and labour relations of the post-Second World War Keynesian embedded liberal compromise (Cerny, 2004: 5).

The NEGP calls for reviewing the way in which BEE has been developed and established in South Africa. Focus and attention within the BEE framework must be given to increase employment, skills development and new investment. With regard to labour policy the NEGP has mainly three goals. It seeks for productivity pacts between business and labour at the workplace and also at sector level. It will seek to act with regard to government policy in addressing problems in contract work, sub contracting, outsourcing and labour broking (South African Government Information, 2010). The NEGP aims to set targets for scarce and key skills and identifies the role that the government will have to play in meeting these goals. Key goals that will have to be met will be the target of producing 30 000 more engineers by 2014 by improving focus on high school maths and science. The establishment of 50 000 more artisans by 2015 would also be a key target and annual targets for Eskom and Transnet have been set (South African Government Information, 2010).

Since 2007 the ANC government has shifted its attention to establish political consolidation and building of a national democratic society. A total transformation or 'second transition' is needed. This also includes a social transformation of race, class and patriarchal relations of power, still influenced by South Africa's 'colonial' and apartheid history. This social transformation will have to be done without totally eradicating capitalist relations of production (African National Congress, 2012b). Since 2007 the ANC has placed emphasis on the state that has to be developmental in its objectives and capabilities, but the South African developmental state will have to be unique in its characteristics.

This entails the capacity to intervene in the economy, focusing on higher rates of growth and sustainable development. Sustainable programmes that address challenges of unemployment, poverty and underdevelopment, with emphasis on mobilising the poor to act as their own liberators through participatory and representative democracy are important objectives (African National Congress, 2012b). The characterisation and envisioning of a national democratic society since 2007, laid an important foundation for further discussions of the strategic direction of the country and the ANC, especially regarding the future. The 53rd Mangaung national conference in 2012 might prove to be an important event, especially with regard to the ANC's position and aims to reposition itself as a transformation movement and directing its governance toward the creation of a national democratic society and developmental state (African National Congress, 2012b). The 'second transition' in South Africa also coincides with an economic and financial crisis of capitalism.

Neoliberal capitalism and the market-led approach has proven since the mid - to late 1990s that it is not as efficient as originally thought. The post-Washington Consensus recognition of failures of financial market liberalisation has influenced economic policies since the Asian financial crisis. Since the late 1990s neoliberal capitalism has struggled to maintain its hegemonic position in the global capitalist system. The global financial crisis and recession since 2007-2008 has led to world order shifts and the crisis of capitalism has influenced the economic dynamics of developed countries of the capitalist core. Ideas about the state and market as separate entities and role of state intervention has yet again been tested by the recent global economic crisis. The next cycle of economic expansion might also be dominated by emerging market countries and not the developed North Atlantic zone and capitalist core.

The rise of state-directed capitalism in emerging markets has also been a prominent feature in recent years. In the 1990s state-owned companies was basically no more than government departments in the emerging markets. According to *The Economist* (2012b) since 2003 to 2010 state-backed firms accounted for a third of the developing world's foreign direct investment, ten of the world's biggest oil and gas firms (measured by reserves) are state-owned. State-backed companies account for 80% of China's and 62% of Russia's stock market value (The Economist, 2012b). Various state capitalism initiatives, across the world and within the emerging markets sphere, have proven that there are viable alternatives for economic development than the traditional notion of liberal capitalism. The ANC has also identified the potential that state-owned enterprises and development finance institutions can play in advancing the levels of economic transformation in the country. The role of state-owned enterprises and development finance institutions will be to build on the capacity of the state. This will be in order to achieve the objectives of a developmental state, with their primary responsibility being the support of strategic government-led developmental objectives (African National Congress, 2012a). The role of state-owned enterprises in South Africa has also been identified to be real economic drivers. Not only confined to economic growth, but also as key agents of economic development.

4.7 Conclusion

As stated by Von Holdt (in Bernstein: 2010: 183) the political transition to democracy and the economic transition to a more globalised world gradually proceeded (in stops and starts) in South Africa. The third transition is still needed and this should be a social transition to a more post-colonial society with a deeper and a broader process of social transformation. As established in this chapter the dual economic divide has been identified, but aims of achieving social transformation has become a very big issue in South Africa, playing a major role in the leadership struggle of the ANC government and tripartite alliance. Economic shifts and aims more closely resembling the left of the tripartite alliance economic standpoint have become more important. Key problems in especially the 'second economy' with regard to service delivery, basic infrastructure and employment are still causing societal instability. Even with the rise of Jacob Zuma to the presidency there are still thousands of service delivery protests happening in the country, often popping up in a free or leaderless way. Even with the NEGP and NDP setting more pro-welfare aims for the country, unrest in South Africa and forces acting outside the boundaries of the more conventional social movements may result in increasing societal instability.⁷

⁷ Societal instability in South Africa has escalated in Augustus 2012, especially since the miners' strike at the Lonmin owned mine in the Marikana area. A series of violent incidents between the South African Police Service and strikers have resulted in the death of 36 mine workers and two police officers (Essa, 2012). The shooting incident on 16 August 2012 also called the 'Marikana Massacre' was the first use of intense lethal force by a South African security force against civilians since the end of the apartheid era. The shootings resulted in the deaths of 34 civilians and 78 others wounded (Essa, 2012). The Lonmin strikes forms part of increased frustration with regard to income inequality and lack of service delivery in the country. It also reflects the lack of attention towards social provision within the capitalist mode of production and indicates the balance of forces and relations that is firmly rooted with international corporate capital and private sector conglomerates dominating economic power relations, especially the financial sector tied to the MEC (Marais, 2011: 390).

Chapter 5

Conclusion

This final chapter aims to summarise and draw together the analysis on the influence of post-Cold War neoliberalism within the South African context. This chapter will be an overview of economic reforms in the post-*apartheid* period and will review what influenced the ANC government in its determination of economic policy and its relationship to neoliberal orthodoxy. The focus of this chapter will mainly be on the evaluation and conclusion of the problem statement which was set out in Chapter 1. This will entail an overview of the economic reforms in South Africa from GEAR to the NEGP. It also relates to what state form is evident in contemporary South Africa and how this relates to the neoliberal paradigm.

As discussed in chapter 1 and further elaborated on in Chapter 2, the capitalist economic system is not a static system, but rather cyclical, undergoing changes as a result of various factors influencing change or deviation in the system. The post-Second World War capitalist economic system according to Cerny *et al* (2005) underwent four periods of change: The economic boom from the late 1940s till the 1960s, the recession of the 1970s, early neoliberal revival in the 1980s and neoliberal hegemony since the early 1990s as a result of the end of the Cold War and collapse of the Soviet economies.

As indicated in Chapter 2, the development of the neoliberal paradigm formed part of a historical process originally influenced by classic liberal theory of the 18th century and developed as a concept through think tanks and academic societies such as the MPS during the mid-20th century. This gave birth to the concept of the neoliberal state and neoliberal growth approaches with policy goals on an outward-orientated approach conforming to demands within a competitive world economy instead of focusing on the goals of a welfare-nationalist state. Within the 'neoliberal state' approach emphasis is placed on market institutions dealing with finance, monetary policy and trade liberalisation, instead of state institutions geared towards national economic planning. In the late 1970s and early 1980s the 'hyper liberal' variant of the neoliberal state, especially associated with Thatcher and Reagan, placed even further emphasis on the role of the market and focus on achieving economic growth within the context of the globalised, competitive economy, attacking the structures of the welfare-nationalist state directly.

Chapter 2 provides a description of the development and shifts within the post-Second World War capitalist economic system. It also provides evidence of how neoliberalism came to dominate the post-Cold War global economic order. This historical overview of the development of neoliberalism and neoliberal globalisation provides an important background to why the ANC government conformed to policies associated with the neoliberal paradigm. The ANC won the 1994 democratic elections and assumed governance responsibility in a period when the neoliberal paradigm with ideas based on ‘market fundamentalism’ reigned supreme. It was the same period when the IFIs enforced ‘shock therapy’ structural adjustment programmes in post-communist countries, Latin America and other countries in the developing world.

As indicated in Chapter 3 the ANC had to adjust to the ‘logic of globalisation’. When the ANC came to power it was confronted by internal interest groups such as an ideological onslaught by neoliberal intellectuals, private enterprise and the financial sector that pushed the ANC to globalise their activities. Externally, pressure from the international community and international financial institutions, training of top ANC officials by the World Bank and IMF and the collapse of the Soviet economies made it more difficult not implementing non-neoliberal economic alternatives. However, ideas of pro-state driven strategies were not abandoned and were developed by the Harare workshops and also the MERG. The RDP economic programme that was adopted by the ANC in 1994 was also largely influenced by COSATU. The state’s main objectives was to encourage economic growth through competition and rooting out monopolistic behaviour, to create wider ownership through employment, mobilise private sector capital investment, reduce state debt and enhance the capacity and competitiveness of all state-owned enterprises (African National Congress, 2012a). The state’s immediate role was also to provide for the historically disadvantaged sections of society through the establishment of infrastructure and provision of services.

The role of the state in welfare provision has not been neglected in post-*apartheid* South Africa and the ANC government has built millions of houses since 1994 and has brought clean water, sanitation and electricity to millions of people. Every child has the right to 12 years of basic education and almost a third of the country’s population is receiving some form of social welfare. The acceptance of the link between HIV and AIDS has also been a very important step in the provision of better public health care. The government did however adopt the GEAR macroeconomic strategy in 1996 which deviated from the original strategy

and tactics of the ANC as political organisation of a national democratic based on equality for all. As discussed in Chapter 3 the GEAR economic programme fits more within the prevailing ideals of post-Cold War neoliberal globalisation, with emphasis on the role of the state as facilitating the expansion of the logic of the market and opening up to a competitive world economy.

The ANC government did conform to fairly orthodox economic policies with the GEAR macroeconomic strategy. GEAR established fiscal conservatism and monetary stability. Emphasis was also placed on attracting foreign direct investment, removal of capital controls and trade liberalisation. GEAR was a market-led economic strategy, but politically GEAR did not abandon the welfare idea as historically promised by the ANC during the pre-1994 struggle against *apartheid*. The GEAR strategy did place constraints on the ANC government and party goals of striving to bring about a ‘total’ transformation of South African society and establishing an economic equal society. Because of South Africa’s political economic history the post-*apartheid* economic reforms can not purely be described as ‘hyper liberal’ in the same sense as for instance associated with the late 1970s neoliberal revival and Thatcherism and Reaganism discussed in Chapter 2.

South Africa thus represents a unique example of post-*apartheid* economic development, especially in relation to the post-Cold War period and dominance of the neoliberal paradigm. As described in Chapter 3 the period between 1996 and 2002 could be seen as the period where the neoliberal approach to economic decision making dominated and established the first phase of post-*apartheid* transition. This entails the political transition to democracy and economic transition to establish macroeconomic stability (through the GEAR programme) and integration into a more globalised economy. With the adoption of GEAR a number of liberal policies were implemented. The state institutions focused on a more outward-orientated approach recognising the need to contain inflation. Reserve bank monetary policies focused on non-interference and inflation-targeted interest rates. In contrast to economic orthodox policies redistributive and welfare payments have remained in place and grown since 1994.

It is important to note that the ANC did not engage on a revolutionary path since 1994. The ANC did not engage in radical redistribution or nationalisation policies disrupting domestic and foreign capital interests. As stated in the Andreasson (2006: 307) article, South Africa is

rather a ‘pro-capitalist, interventionist state’ with some welfare and state intervention, but broadly following macroeconomic policies maintaining fiscal and monetary discipline.

Andreason (2006: 304) has also described the post-*apartheid* form of state in South Africa as ‘predatory liberalism’ which is characterised by a mixture of economic liberalisation and the use of the authority of the state to centralise and consolidate power in the hands of the black middle class, the post-*apartheid* ‘black elite’ class and white capital. This is also emphasised by the balance of power relations in post-*apartheid* South Africa, being dominated by international corporate capital, private sector conglomerates and financial sector dominated by the MEC complex (Marais, 2011: 390). South Africa’s form of state has incorporated a strong focus on welfare, especially in maintaining relative societal stability, but the current welfare measures has not been enough to establish economic equality and a ‘total’ socio-economic transformation within the South African societal structure.

As described in Chapter 4, by pursuing a neoliberal macroeconomic strategy, the ANC government ran the risk of alienating some of its traditional allies in the SACP and COSATU. The SACP has supported COSATU’s campaigns against privatisation in the late 1990s and early 2000s and also the rise of Jacob Zuma in his leadership struggle against President Mbeki from 2005 to 2007. Centrist economic programmes associated with neoliberalism such as GEAR has been blamed for worsening economic inequality and societal tensions in South Africa. The discontent that was experienced with the effectiveness of GEAR as an economic strategy has since the early 2000s led to the introduction of new economic frameworks such as AsgiSA in 2004 addressing national issues especially arising out of the ‘second economy’ such as unemployment and infrastructure development. It is evident that GEAR did not achieve success in the expansion of the South African economy and economic growth to provide broad welfare aims or ‘total’ economic transformation to a ‘post-colonial’ economic equal society. Since the early 2000s, ANC policy formulators had to consider the effects of an increase in societal tensions and readjust its economic strategies accordingly.

As stated in the ANC discussion document on ‘the second economic transition’ GEAR was a tactical detour that was necessitated by objective conditions such as high public debt and deficit, bloated public growth and subjective conditions such as distrust by private capital of the new dispensation (African National Congress, 2012b). After 2000 there has been a shift from liberalisation policies to address microeconomic matters. The post-Polokwane, 2007 Strategy and Tactics has also shifted focus towards the political consolidation needed and the

building of a national democratic society. There has been increased reference to the triangle of poverty, unemployment and inequality and their historical and contemporary foundations in *apartheid*-colonialism and post-*apartheid* capitalism.

With the appointment of the NPC in May 2010, agreement has been reached that the ‘symptoms’ of the political economy of South Africa could be ‘diagnosed’ to be rooted in unemployment, unequal standards of education, lack of infrastructure and a resource-intensive based economy. South Africa remains a divided society and this is emphasised by a ‘disease burden’ as a result of a failing health system, uneven public service delivery and widespread corruption (African national Congress, 2012b). Agreement has also been reached that the structure of the *apartheid* colonial economy has not received enough attention in the post-*apartheid* period and has to some extent remained the same. This includes the persistence of racial patterns of inequality, especially rooted in the ‘second economy’ of the ‘dual economic divide’ as discussed in Chapter 4. The ANC government has identified the importance of a ‘second transition’ and the necessity to build a new national consensus that should lay the basis for a total social economic transformation. But has this shift in thinking resulted in a shift in economic policy formulation and goals of economic frameworks such as the NEGP?

The latest economic framework, the NEGP, was released in November 2010 by the Department of Economic Development. As indicated in Chapter 4 the adoption of the NEGP and establishment of the Department of Economic Development could be attributed to Jacob Zuma’s rise to power and to some extent be seen as a ‘pay-off’ for COSATU and their support in Zuma’s rise to presidency. This document states that the new growth path must provide bold, imaginative and effective strategies focused on the creation of millions (5 million by 2020) of new jobs in South Africa. The creation of jobs is also seen as essential in the struggle to reduce poverty and economic inequality in South Africa (South African Government Information, 2010). The NEGP document emphasises need of a ‘balanced’ approach that would have to focus on both social equity and market orientated goals of a competitive economy. The NEGP has to some extent moved to the ‘middle ground’ as an economic framework, with more emphasis on increased state intervention, but also still maintaining monetary conservatism through aims at containing inflation and the need to maintain a competitive currency. Economic development plans such as the NDP has also

emphasised the increased role of the state and the state's role in reaction to market failures. Job creation and economic equality are also important focus points of the NDP.

The increased awareness of the government with regard to a needed 'social transition' and increasing reference to the triangle of poverty, unemployment and inequality has proven that re-evaluation of economic policy is needed. The crisis of capitalism unfolding in the heart of the global capitalist order has also necessitated the need to re-evaluate the legitimacy of economic strategies associated within the neoliberal paradigm. The introduction of the NEGP economic framework and NDP reflects South Africa embarking on a path to becoming a developmental state and state intervention in achieving the goals set out in the framework is clearly evident, although it should happen in partnership with the private sector. South Africa's development path is unique as a result of its political economic history. Its post-*apartheid* economic development has also been influenced by its historical legacy and the ANC governments' responsibility to establish a democratic 'just' society overcoming poverty, unemployment and inequality.

This thesis provided a historical description and analysis of the post-*apartheid* economic development in South Africa and its relation to the neoliberal paradigm, dominant in the post-Cold War period. It has also indicated to what extent the ANC government had to deal with historical factors and influences at national level, bearing direct relation to economic policy formulation. The adoption of the GEAR strategy in 1996 and aims at achieving macroeconomic stability placed constraints on the government and its 'social contract' of bringing about a total social transformation and eradication of *apartheid* 'colonial' economic structures. The re-evaluation of economic programmes to achieve this has become ever more important since 2007, but it is becoming an increasingly difficult task to achieve with the continuous increase of protests at state-society level and the growing burden of economic inequality. Economic growth strategies is also an important focus point in light of the 2012 Mangaung national conference and the conference could become a symbolic watershed event indicating a shift in the governments' position towards economic development and its aims of achieving social development and the creation of a developmental state. However, given the contemporary historicisation of post-*apartheid* economic policy which this study undertook, it is unlikely that there will be any radical shifts, post-Mangaung.

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