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Economic Policy and Power Relations in South Africa's Transition to Democracy

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Summary. — South Africa's leading anti-apartheid organization, the African National Congress (ANC) entered the period of transition in the early 1990s with only an impressionist economic vision. But for all its limitations it was a (state-led) program of development directed at alleviating the legacy of poverty and inequality. The ANC was forced to begin to fashion a set of modeled economic proposals around which it could at some level "negotiate" with other organizations and social groups and contest an election. As in the case of the negotiations around a post-apartheid constitution, the economic program ultimately adopted differed significantly from the organization's original vision. The new economic program was a fairly orthodox neoliberal one. The shift in economic policy, we would contend, was the result of the ANC's perception of the balance of economic and political power at both the global and local level. This article critically examines these political and economic interactions in the South Africa of the 1990s; attempts to explain the reasons underlying the shift in economic policy; and ends with some reflections on the ways in which the South African experience in economic policy reform either elaborates or revises existing theories of transitional societies. © 2000 Elsevier Science Ltd. All rights reserved.

Key words — economic policy, transition societies, political change, South Africa

1. INTRODUCTION

Political transitions enable new social groups to enter the political arena; in so doing they create the possibility for significant changes in the economic policies. The debate around future economic policies has in some instances become one of the central contests among contending social groups and organizations. In the authoritarian societies of the Soviet Union and Eastern European the old state elites attempted to hang on to discredited and dysfunctional economic programs despite calls from local and foreign constituencies for market-oriented economic reforms. Initially new elites there enthusiastically embraced (widely-supported) market-oriented, "shock therapy" reform packages, although since then "reservations have emerged and grown large, mainly because of the unexpected social and economic costs of the transition and slow improvements in living standards" (United Nations, 1998, p. 15).

In some transitional societies in the developing world newly ascendant state elites came under similar pressure from powerful international institutions, potential foreign investors and local capital. In most cases they discarded previously held developmental approaches, still supported by their own grassroots constituencies, in favor of the globally-dominant neoliberal agenda, the so-called Washington Consensus. This economic choice of new state elites in both Eastern Europe and the developing world invariably weakened, albeit in different ways, the prospects for the consolidation of democracy in these societies.

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This article investigates the emergence and impact of similar developments in South Africa. The leading anti-apartheid organization, the African National Congress (ANC) which previously only had an impressionistic (yet developmental) economic strategy was soon required to fashion a set of concrete, modeled, economic proposals around which it could at some level "negotiate" with other organizations and social groups and contest an election. As in the case of the negotiations around a post-apartheid constitution, the economic program ultimately adopted and implemented differed significantly from both the organization's original vision, and its initial proposals. This economic program was a fairly standard neoliberal one. The shift in economic policy, we would contend, was the result of the ANC's particular perception and interpretation of the balance of economic and political power, at both the global and local level. This understanding gave priority and prominence to the international financial and investor community rather than to the country's post-apartheid growth and development needs. The ANC placed unusually great stress on the importance of foreign capital inflows and on the lower costs of raising capital in international markets that would derive from strict adherence to principles of the Washington Consensus. The economic ideas and recommendations generated by progressive economic think tanks such as the Macroeconomic Research Group (MERG) despite being "owned" by the ANC alliance were not systematically debated and contested within high-level political structures and in multiparty negotiations. These developments and "failures" not only shaped the outcome of the economic strategy eventually adopted, but they have also had implications and consequences for the consolidation of democracy in South Africa.

Section 2 is a statement on the nature of the economic challenge faced by the incoming democratic government. It then explores the original economic policies advocated by the National Party and those put forward by progressive ANC-aligned think tanks such as MERG, the Industrial Strategy Project (ISP) and the Reconstruction and Development Programme (RDP). Thereafter, it examines the Growth, Employment and Redistribution Strategy (GEAR), the economic program formulated by the ANC-led Government of National Unity (GNU) in 1996. Section 3 attempts to pull together some of the strands of the preceding discussion in an attempt at explaining some of the reasons for what many regard as a sea-change in ANC economic thinking. Section 4 then sets out key features of the economy and the performance of the economy since 1994. The following sections assess the potential impact of economic performance on the prospects for consolidating South Africa's fledgling democracy. Section 8 discusses some of the ways in which the South African economic reform experience either elaborates or qualifies existing theories of transitional societies. Section 9 concludes with some reflections on the future trajectory of macroeconomic policy in South Africa, given changing domestic and global conditions.

2. THE ECONOMIC CHALLENGE [1]

The problems faced by the South African economy on the eve of democratic elections were immense. Economic growth had slowed markedly since the early 1970s, reversing the robust expansion of the 1960s, when the country's growth rate was among the highest in the world, along with Japan, South Korea and Brazil (Mohr & Rogers, 1996, p. 45). During the severe recession of March 1989–May 1993 the contributions of both the primary and secondary sectors to growth fell in real terms-only the tertiary sector experienced a positive, albeit marginal, growth. Although manufacturing remained the principal contributor to GDP, it remained closely linked to the mining and energy sectors, the foundation of South Africa's modernization since the second half of the 19th century (Fine & Rustomjee, 1996, pp. 71–92). Indeed, given manufacturing's weak contribution to exports, South Africa remains a primary commodity exporter, competitive in manufacturing only in the regional, and not in the global context. Moreover, domestic investment as a proportion of GDP declined from 27% to 15% over 1983–93. Domestic savings fell from an average of 23.5% of GDP in the 1980s to 17% in 1993 (IBCA, 1994, pp. 3, 20). By the early 1990s as much as 40–45% of the economically active population was found outside the formal sector. Labor absorption into the formal sector from the mid-1970s to 1994 plummeted from 60% to under 40%. Net job creation over this period amounted to just 440,000 compared to growth of five million in the economically active population, implying that less than one of every 10 new entrants into the economically active population was being absorbed into formal employment (Michie & Padayachee, 1997, p. 13). Employment in the private sector fell consistently in this time. Pre-1994 income and wealth inequality was commonly cited as among the worst in the world. The rural areas as sources of growth, employment or even subsistence, all but collapsed.

Yet some positive and potentially positive economic fundamentals and features were in place, upon which an innovative platform for post-apartheid reconstruction and development could have been built. Although both inflation and public sector debt rose in the late 1980s and early 1990s—as the ruling National Party (NP) government attempted to use its resources to compensate and protect its supporters in the face of inevitable change—neither indicator was so large by international standards as to be problematic. In the European Union's Maastricht Treaty, for example, a national debt to GDP ratio of anything below 60% is acceptable. In March 1994 South Africa's total national debt (including that of the homelands) stood at only 52.5% (Michie & Padayachee, 1997, p. 14). Despite the declining rates of net investment and savings, private sector financial surpluses had been rising since 1988, with most of this capital locked within the giant conglomerates. Foreign debt had been reduced dramatically in comparative terms through an enforced debt rescheduling arrangement in the second half of the 1980s. The country's physical infrastructure stock (including electricity, roads, harbours, railways, water networks) and financial, banking and informational system were impressive (albeit racially skewed) even by international standards. Moreover, significant human, business, and technological skills and expertise existed in some sections of the population. [2]

Bratton and Landsberg have remarked that "...compared to Russia, the challenges of economic transition [in South Africa] were less daunting since most basic institutions—like capital markets, a private banking system, justiciable contract law—were already firmly in place" (Bratton & Landsberg, 1998, p. 3; on this see also Shapiro, 1993). While true, care must be taken not to exaggerate the differences. Although the post-apartheid regime did not have to establish the institutional mechanisms of the market, it did have to intervene, nonracialize and redirect them to address the appalling levels of poverty and inequality in the country.

Moreover, like most other post-authoritarian regimes in transitional societies, the ANC-led GNU had to fulfill its promise of reconstruction and development in a context of capital flight. This partly explains the ANC's, and other transitional governments, preoccupation with attracting foreign capital. It also poses, however, the question of whether the liberalization of financial markets is counterproductive and incompatible with the desire to address the economic reconstruction of transitional societies. This was a key issue that the major political parties contesting the 1994 democratic elections had to come to terms with.

3. COMPETING ECONOMIC VISIONS: PRE-1994

Between 1948 and the late 1970s, the NP advocated a state-interventionist economic vision, but one limited to the white population. Like some other developing countries at the time, it pursued an import-substitution economic strategy that facilitated the expansion and development of the country's manufacturing sector, and especially the production (using relatively cheap black labor) of durable consumer goods.

The NP's economic vision, however, underwent a dramatic transformation in the late 1970s. Afrikaner firms, benefiting from three decades of government contracts and contacts, developed into large conglomerates with a significant stake in all sectors of the country's economy (Davies, O'Meara & Dlamini, 1985, pp. 23–24). Confronted by the political crisis of the late 1970s, Afrikaner businessmen, like their English counterparts, felt confident enough to advocate both political liberalization and socioeconomic reform. They also pushed for the gradual liberalization of the South African financial system and (eyeing future markets abroad) for the country's further integration into the world economy. These views diverged significantly from those advocated by other classes within the Afrikaner establishment. This, in part, provoked the ideological struggle between *verligtes* (the enlightened) and *verkramptes* (the conservatives) within the NP in the late 1970s (Davies *et al.*, 1985, pp. 30–31).

The victory of the verligtes represented the success of big business and the military establishment. It also meant the prioritization of the interests of Afrikaner business within the NP.

Increasingly, and in accordance with the material interests of this constituency, the NP began to advocate and implement a more market-oriented economic program, especially in respect of monetary, exchange rate and labor market policy. This early neoliberal experiment, which was pioneered in the first half of P.W. Botha's rule, was weakened by political resistance, township boycotts and militant strikes. Its subsequent temporary suspension came about because of South Africa's foreign debt crisis in 1985, when (in August) the apartheid state unilaterally declared a moratorium on debt repayments before being forced into a phased negotiated settlement. When De Klerk took over in 1989, however, he re-established the alliance between state and business, and resumed the neoliberal economic experiment. A key aspect of this reform was the greater "autonomy" de Klerk granted to the South African Reserve Bank in monetary policy matters.

In March 1993, this National Party approach (labeled "growth with redistribution" by ANC supporting economists) was codified in a document entitled "The Restructuring of the South African Economy: A Normative Model Approach (NEM)." The NEM set as its goal the structural adjustment of the market economy to achieve a 4.5% GDP growth rate, and a 3% increase in employment, by 1997 (Central Economic Advisory Services, 1993, p. 1). It also envisaged the removal of political and socio-economic barriers to the market so as to provide all of South Africa's citizens with equitable access to opportunities within the economy. To facilitate the realization of its vision, and to overcome the obstacles to growth, the NEM advocated an economic strategy based (mainly) on supply-side reforms (Central Economic Advisory Services, 1993, pp. 10–14). The NEM noted the necessity for redistribution, but maintained that the benefits of privatization and deregulation would eventually trickle down to the broader population.

Such economic strategies had been rejected by the ANC for most of its history (Michie & Padayachee, 1997, pp. 15–16). The ANC's economic vision in the long, drawn-out struggle against apartheid was understandably schematic and ambiguous. It was mainly designed to unite the maximum of social forces behind the organization. The Freedom Charter's by now famous clause that called for the restoration of the national wealth to the people, generated different meanings among different groups. For some, it implied the socialization of the means of production. For others it implied nationalization. For yet others it merely implied restructuring and redistribution within the framework of a mixed economy (Innes, 1985; Fine, 1986; Suttner & Cronin, 1986). Despite this ambiguity, however, there was broad agreement that the market would not be left to its own devices. There was to be a significant role for the state and for the regulation of key markets. Redistribution was to form the central element of a post-apartheid economic strategy.

This was the approach that initially informed the ANC's participation in the economic debate. When Nelson Mandela was released from prison, his speech on the steps of Cape Town's City Hall stressed the necessity of nationalization and redistribution (Mandela, 1990). ANC/SACP stalwart Joe Slovo's public discourse similarly suggested that the post-apartheid economy was to be "a mix between market and plan, with priority being allocated to the latter" (*The Weekly Mail*, March 30–April 4, 1990). Former COSATU education secretary and ANC/SACP activist Alec Erwin insisted on the need for state ownership of the country's natural resources, although he allowed for the possibility of leasing these to collective forms of ownership and capitalist enterprises (*The Weekly Mail*, March 30–April 4, 1990). Moreover, the discourse that emerged from the ANC's Harare workshops in April and September 1990 argued that the new path of economic growth and development must be based on satisfying basic needs (ANC, 1990a,b). The ANC was also opposed to the De Klerk regime's privatization and deregulation initiatives. It threatened the re-nationalization of those public utility corporations that were privatized, and stressed the need for expanding the public sector and re-orienting it toward meeting basic needs. This approach, in ANC discourse, was labeled "growth through redistribution" and was publicly counterpoised against the De Klerk regime's "growth with redistribution" initiatives (Erwin, 1992).

Later in the course of 1990 media reports suggested that the ANC was re-evaluating its approach to nationalization (Nattrass, 1994; *The Star*, May 1, 1990). Mandela himself came out against nationalization in late 1991 when he reassured [then] President Bush and corporate executives in the United States that the ANC's perceptions had changed on the issue (*London Financial Times*, November 1991). The ANC policy conference in May 1992 also downplayed nationalization, suggesting that it was merely one of a number of measures under consideration (ANC, 1993, p. 20). By late 1992 nationalization was effectively no longer a serious option on the economic agenda of the ANC.

The abandonment of nationalization was not the only evidence of a shift in thinking on the part of the ANC leadership. The approach to foreign investment also underwent a marked change in this period. The discussion document produced at the Harare workshop in September 1990 explicitly stated that controls would be exerted on foreign investors in order to ensure that they "...co-operat(ed) with government in achieving developmental goals, (and followed) labor practices acceptable to trade unions..." (ANC, 1990b, pp. 16–17). This commitment, however, was abandoned by May 1992, and the economic policy adopted at the ANC's policy conference was much softer on foreign investors guaranteeing them national treatment, economic stability, and "...access to foreign exchange for the purpose of remitting after-tax profits and debt service on approved foreign loans, purchasing inputs, and repatriating the proceeds on the sale of assets" (ANC, 1993, pp. 23–24). There was no mention of controls on, or regulation of, foreign investment other than a statement suggesting that those which "...meet defined national growth and development objectives may enjoy specific contractual arrangements" (ANC, 1993, p. 24).

Although ANC leaders and economists, faced with questions about how an ANC government would finance reconstruction and development, referred to the apartheid dividend such as reduced defence expenditure, gains from the reduction of a bloated civil service, and reduced levels of state and corporate corruption, as well as other factors such as improved tax collection, there was a disproportionate emphasis on the significance of foreign capital for post-apartheid growth (see for example, Padayachee, 1995a,b). Western governments and international financial agencies, as well as local corporate capital appeared very successful in persuading the ANC leadership of the importance of proceeding in a way which did not jeopardise potential foreign financial support in the new era. The ANC in the early 1990s began to make a serious attempt to encourage and entice foreign investment. This prompted US academic Martin Murray to observe that the "twin objectives of restoring business confidence and attracting foreign investment seemed to swamp all other considerations" (Murray, 1994, p. 24), in the ANC's evaluation of its economic policies.

The ANC's softening of its economic policies and rhetoric in 1992–93 still did not, however, lead it to abandon all elements in its original, more interventionist, economic strategy. The tussle over economic policy had by no means ended within the organization. An intense debate on economic policy continued within and among the ANC, SACP, and COSATU. Grassroots activists within the ANC, the SACP and COSATU continued to advocate a radical economic program that included nationalization, reigning in the power of the local conglomerates, and controls over foreign investors. Reflecting these (unresolved) internal tensions the economic strategy of the ANC by 1992 still differed somewhat from the more unambiguously neoliberal economic program advocated by the NP and the business community (Habib, 1998, pp. 197–198).

Economic ideas in support of ANC-alliance economic thinking was most clearly set out in the policy reports and recommendations of the Macro-Economic Research Group (MERG) and the Industrial Strategy Project (ISP). Launched by the Congress Alliance in November 1991, with the financial and technical support of the Canadian International Development Research Center (IDRC), MERG became operational in late 1992. Its establishment and mandate were from the very beginning highly contested. Its primary purpose was to demonstrate that the Congress Alliance had the organizational, infrastructural, and technical capacity to develop an alternative, modeled, macro-economic growth strategy (Padayachee, 1995a,b). This strategy was published in a final report in December 1993. MERG's growth plan comprised two phases: an initial "public-investment-led phase" during 1993–99, followed by a "sustained growth phase" to 2004. The role of the private sector was envisaged to increase quite substantially in the second phase of the growth plan. Annual growth in GDP was projected at 5% per annum in the second phase, and the total level of employment created in the 10-year cycle was expected to be 2.5 million (MERG, 1993, p. 2). It should be noted that the alternative growth strategy articulated in the MERG report essentially married the conflicting tensions in early debates around "growth through redistribution" through a developmentalist economic program comprising both supply- and demand-orientated reform measures.

Many of MERG's proposals on industrial strategy and trade were based on the research conducted by the ISP (Habib, 1998, p. 206). The ISP's major focus was on the creation and development of South Africa's manufacturing exports, given its view that South African economic growth depended significantly upon whether the country became internationally competitive in this area. Because MERG "contracted out" its trade and industry research to ISP personnel, there was some degree of overlap in the strategies and policy recommendations of the two groups. Despite sharing many common progressive features, there were also significant differences in the approach between MERG and the (more outwardly-oriented) ISP (see on this Kaplinsky, 1994, p. 534). Their "fusion" in the MERG chapter on trade, corporate and industrial policy was in the end an "inconsistent compromise." It was noticeable that by 1992–93 the intellectuals associated with ISP-type thinking, where attention was (explicity and implicity) drawn to the dangers of macroeconomic imbalances and expansionary monetary and fiscal policies, appeared to be more influential within the ANC. A debate continues about whether academic economists led or followed the change in ANC leadership thinking on economic policy (see Padayachee, 1998a,b).

Two very different economic strategies, then, were being advocated on the eve of South Africa's first nonracial general election. These contradictory economic visions and sets of policies represented of course the diametrically opposed political interests of the different constituencies of the NP and ANC, respectively. The NEM's emphasis on economic growth, minimal state intervention, privatization, deregulation, wage restraint, and low levels of inflation, advanced the interests of the business community and the white population. The MERG/ISP proposals, by contrast, still attempted to advance the interests of the victims of apartheid. Expanding the role of the public sector and subjecting the Reserve Bank to political control would increase the state's capacity to intervene and direct production toward meeting basic needs. State intervention would also facilitate the regulation of the business environment to ensure that the larger white conglomerates did not crowd out the smaller black firms. Moreover, such regulation would ensure that the strategies adopted by the business community to reduce production costs do not unfairly prejudice the living standards and other interests of the poorer and more vulnerable sectors of South Africa's population. Indeed, the establishment of a minimum wage and other redistributive measures would uplift these living standards for the majority of the disenfranchised.

One major feature of the economic policy formulation process in this early phase of South Africa's transition to democracy is worthy of mention, namely the total disjuncture between the economic and political negotiations machinery of the ANC-led alliance. Relations between MERG and the ANC's Department of Economic Policy (DEP) were structurally weak, and strained by poor interpersonal histories among the two leaderships (Padayachee, 1995a,b pp. 66–67). ANC elites such as Joe Slovo, Cyril Ramaphosa and Mac Maharaj who were involved in political negotiations rarely related to either the DEP or MERG, with the result that economic ideas emanating from the latter organs did not systematically feed into and inform discussions at the multiparty talks. As a result key economic issues such as that of the independence of the Reserve Bank were either not, or only belatedly and hurriedly, debated with those on the alliance's economics desk.

4. THE ECONOMIC POLICY OF THE ANC/GNU: 1993–96

In December 1993 the ANC (through the interim governing structure the Transitional Executive Council) gave support to a small International Monetary Fund (IMF) Compensatory Financing Facility. The standard, neoliberal, draft Letter of Intent drawn up by the IMF was accepted by the ANC without any changes, despite MERG recommendations for changes on many issues (see Padayachee, 1995a,b). After some complex internal struggles—reflecting in part the very different economic thinking of the progressive unions and the exiled ANC/SACP cadres (on this see Padayachee, 1998a,b)—the ANC alliance adopted the Reconstruction and Development Program (RDP) as its electoral manifesto for the April 1994 elections. Although the RDP was formally distinct from MERG, and in fact primarily arose out of COSATU efforts, it nevertheless reflected some of the regulatory and developmentalist economic vision, priorities, policies, and targets of MERG. The RDP committed the ANC to seek a legislative program of government in accordance with most of the economic policies recommended by MERG. Moreover, it had won significant legitimacy in both political and business circles by the time of the general elections.

The RDP was conceived by its architects as an integrated, coherent socioeconomic policy framework. It was intended to be a people-driven project that would realize peace and security through programs that build the country, integrate the goals of reconstruction and development, and deepen democracy (ANC, 1994, pp. 5–7). The RDP document was essentially divided into five separate sections, each of which dealt with a separate programmatic theme. These were: meeting basic needs, developing the country's human resources, building the economy, democratizing the state and society, and implementing the RDP. All five policy programs were interrelated; the failure to pursue any one of them threatened the success of all the others. Thus the programs were to be pursued simultaneously, and a single office (with national and provincial structures) was to coordinate the project and integrate the RDP activities of the separate government departments, agencies and parastatals.

The RDP's proposals, in line with MERG, conceived of a significant role for the state in leading and regulating the market to meet the twin goals of reconstruction and development. But there were features that suggested shifts from earlier ANC/MERG thinking. A much greater outward-orientation of the growth strategy could be detected in line with the acceptance that export growth, especially in manufacturing, had to be a key component of any economic success. The tariff structure was to be simplified, and tariffs were to be reduced with minimal disruption to employment. Somewhat more was made of the importance of foreign investment. The most significant deviation from the MERG proposals was the RDP's recognition of the independence of the Reserve Bank, even though it did recommend legislative reform that would permit the representation of trade unions and civil society on the Bank's Board of Directors, and compel the Bank to account for its decisions to parliament (ANC, 1994, p. 112). The RDP was either silent or vague on issues related to the reform of the financial and banking sector arguably in response to the private sector's concerted attack on MERG's 1993 proposals for far-reaching reforms of this sector.

In April 1994 the ANC won an overwhelming victory in the country's first democratic elections and (in accordance with the new Constitution) assumed the role of dominant party in the Government of National Unity (GNU). Significantly, the Finance portfolio was given to a National Party Minister, Derek Keys, himself a leading exponent of the NEM and a former head of Gencor, one of South Africa's major mining conglomerates. On economic matters, the GNU soon acted against the recommendations of MERG, and enshrined the independence of the Reserve Bank in the interim (and final 1996) constitution. Moreover, it ignored the original RDP proposals to democratize the Board of Directors of the Reserve Bank. A significant amount of economic liberalization has taken place since April 1994. One area of focus of this liberalization initiative was the (external) financial market. The financial rand (which protected the currency somewhat from volatile capital account movements) was abolished in March 1995. In July 1995, the Reserve Bank eased exchange controls even further through asset swap arrangements which allow local institutions to invest a portion of their assets abroad, in exchange for an overseas institution making a reciprocal counterinvestment in their existing portfolios. Both bank Governor Stals and the current Minister of Finance, Trevor Manuel, have committed themselves to the principle of exchange control liberalization, although they have stressed that this would be done gradually and in the context of changing economic conditions both globally and locally. In general, the motivation for easing exchange controls was expressed by Stals when he stressed that this would facilitate the creation of an "...investor-friendly environment to overcome macro-economic limitations imposed by apartheid..." (*Financial Mail*, August 25, 1995).

Trevor Manuel, in his previous capacity as Minister of Trade and Industry, initiated a bold trade liberalization program that intended to simplify tariff structures and lower tariff barriers. In mid-1994, he announced significant tariff cuts on imported vehicles, textiles and clothing, and indicated that similar measures would be announced in the future with regard to other sectors like chemical, electronics, electrical goods, metals, machinery, paper and furniture (*Business Day*, June 13, 1995; *The Star*, June

14, 1995). Manuel's proposals on phased tariff reductions outstripped South Africa's GATT offer in all sectors, leading some to accuse him of a "holier than GATT" approach. [3] His rationale for undertaking these trade liberalization initiatives is to create a competitive environment in which South African firms and industries are forced to be competitive on global terms (Manuel, 1995). This policy direction is broadly supported by international financial agencies, foreign investors, and the domestic business community (South Africa Foundation, 1996, pp. 24–25). It is also supported by regional neighbors in the Soutern African Development Community (SADC) who hope that lower tariffs would enable them to address their growing and unsustainable trade deficit with South Africa.

The most dramatic shift on the part of the ANC, however, emerged in relation to its policy stance on privatization. Both MERG and the RDP preached caution in this regard. The ANC had consistently opposed the privatization initiatives of the De Klerk regime, and had even threatened re-nationalization of privatized assets. But this opposition to privatization evaporated as soon as the ANC entered the GNU. In December 1995, (then Deputy-President) Thabo Mbeki announced plans for privatization initiatives that included parts of parastatals like Telkom and South African Airways. Mbeki motivated his case for the sale of state assets on the grounds that there was a need to reduce government debt and readjust the state's role in the economy.

The economic strategy of the GNU was formally codified in June 1996 (at a time when the South African currency was under great pressure) with the publication of a new government report entitled "Growth, Employment and Redistribution: A Macroeconomic Strategy" (GEAR). This report was preceded by the publication of two other reports that represented the views of the business community and the union movement, respectively. The report of the business community, formally authored by the South Africa Foundation, and entitled "Growth For All: An Economic Strategy for South Africa," advocated a neoliberal economic policy direction with tougher action on crime, streamlining of government expenditure to 2% of GDP through cuts in social spending and the retrenchment of 150,000 civil servants, privatization of government's major commercial holdings, the creation of a flexible two-tier labor market with one being characterized by low labor standards and no minimum wage, and a program to lower tariffs and devalue the rand (South Africa Foundation, 1996). The union federations' report, entitled "Social Equity and Job Creation—The Key to a Stable Future," located itself within the RDP's and MERG's developmentalist philosophy, and reiterated many of their earlier discussed proposals (COSATU, FEDSAL & NACTU, 1996).

The GNU's "Growth, Employment and Redistribution," was supportive of, and broadly consistent with the central thrust of the South Africa Foundation report (see for example Nattrass, 1996, p. 25). Establishing targets of a 6.1% growth rate and the creation of 409,000 jobs per annum by the year 2000, GEAR proposed an accelerated program of privatization, deregulation, and fiscal restraint. Foreign exchange was liberalized even further by increasing the proportion of assets that could be swapped by local financial institutions, merging holiday and business allowances to R60,000 per annum, and raising the borrowing capacity of foreign investors from 50 to 100% of shareholders' equity. A number of new tax allowances were announced to attract foreign investment. The government also reaffirmed its commitment to the sale of state assets, although it provided no concrete timetables in this regard. Fiscal restraint with a deficit target of 3% by 1999, is to be achieved through the rationalization of the public sector, the elimination and scaling down of some social services, budgetary reform, overhaul of the tax structure, and the establishment of more efficient mechanisms for revenue collection (Department of Finance, 1996, pp. 9–12).

The macroeconomic strategy report professed a commitment to the RDP (Department of Finance, 1996, p. 1). But some have argued that its emphasis on containing government expenditure, lower fiscal deficits, lower inflation, deregulation, privatization, the priority accorded to attracting foreign investment, and minimalist state intervention are in fundamental opposition to the basic policies and developmental thrust of MERG and the RDP (Freund & Padayachee, 1998; Habib, 1997). In the context of South Africa in the late 1990s, the core of the GNU's economic strategy is neoliberal in character (the liberalization of trade and finance relations, privatization, fast-track deficit reduction program, a "crowding-out" approach to government expenditure, cuts in state support for economic services, a narrow focus on inflation etc).

It is true that some countertrends exist. The GNU's commitment to unbundling the conglomerates, and the passage of the National Qualifications Framework (NQF) and the Labor Relations Act (LRA), were consistent with recommendations of MERG and the RDP. But these initiatives, other than the LRA, [4] were not necessarily incompatible with neoliberal economic strategies most often associated with the IMF, World Bank, and even the NPs NEM. The existence of corporatist legislation and institutions, state initiatives to facilitate black economic empowerment, and the relatively "high" level of state expenditure on social services (which incidentally fail to consider issues such as distribution effects and incidence) does not, in our view, negate the essentially neoliberal character of the GNU's economic program. Rather, they should be conceived as contradictory impulses that sometimes accompany the application of neoliberal economics, as has occurred elsewhere, including in Thatcher's Britain of the 1980s. Moreover, the dismantlement of the RDP office in March 1996 and the transfer of its functions to the office of Deputy President, Thabo Mbeki, suggested that the pendulum might had swung even further away from the developmentalist vision advocated by MERG and the RDP.

5. ELITE PERCEPTIONS OF THE BALANCE OF POWER

The ultimate triumph of the neoliberal economic vision, and its adoption by the GNU, was the result of the balance of power in the economic arena. Evidence of this impact of the distribution of power on agency behavior and decisions is provided in the perceptions of elites which are mainly expressed in documents and interviews. These documents and interviews with key leaders like Alec Erwin and Trevor Manuel suggest that ideological and economic resources define the balance of power in the economic arena.

First, the principal ideological resource available to actors' advocating a neoliberal economic program was the rise to hegemony of market ideology. This resulted from the collapse of the communist bloc in Eastern Europe and the Soviet Union. This collapse of communism ensured that there was no alternative economic discourse to that of the market. The market was celebrated as the only rational mechanism for the efficient production and allocation of goods within and among societies. The legitimization of market discourse is clearly evident in South Africa. Leaders with unassailable communist credentials such as Joe Slovo (1990) suddenly began arguing that the market was a necessary mechanism in any modern economy. Moreover, this view was reflected in the negotiated political settlement which implied a commitment on the part of the ANC to manage, and to locate its program of economic reconstruction within the framework of, a market economy. This was captured in a range of clauses in the Bill of Rights which recognized the right of individuals to own property and accumulate capital, and to dispense with these as they please (Republic of South Africa, 1993, clauses 26 and 28). The contribution of the collapse of communism to the hegemony of this market discourse is reflected in current Minister of Finance Trevor Manuel's response to a question on why the ANC shifted its position on nationalization, "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" (Interview with Trevor Manuel, September 21, 1995).

It should be noted that this commitment of the ANC to a capitalist economy did not officially prevent the GNU from pursuing a regulated, statist economic strategy. Its reluctance to do so, however, emanates from the wider distribution of power between it and international financial agencies, foreign investors, and the domestic business community. This, then, is the second economic resource that was available to advocates of the neoliberal economic vision. The IMF and World Bank's status in the global economy had been elevated and enhanced since the late 1970s and early 1980s. The exhaustion of import-substitution strategies in much of the developing world plunged these societies into economic crisis. Their power *vis-à-vis* the IMF and World Bank increasingly weakened as they became dependent on the latter for loans and resources. The debt crisis of the 1980s, and the role of the IMF in negotiating a settlement in that regard, also enhanced its status. International banks required developing countries to get the approval of the IMF before they consider providing new loans, or renegotiating the terms of existing ones (see Pastor, 1991). Just as important was the fact that IMF and World Bank support for a country's economic reform program continues to be one critical factor in the determination by credit rating agencies of a country's investment grade. A high investment rating brings with it a lower cost of borrowing on international capital markets. In short, a variety of international developments, now often captured in the notion of "globalization" were clearly eroding the "room to maneuver" of developing countries such as South Africa. These and related "realities" were impressed upon ANC political elites in the many regular visits made to South Africa in the early 1990s by the IMF, World Bank and related institutions.

Third, a similar balance of power existed between the GNU and private foreign investors. The defining features informing the capabilities of these two actors is the mobility of capital in the contemporary world, and the increased competition among countries for foreign investment. Technological advancements have ensured that multinational firms and conglomerates are able to shift large amounts of resources across the world in relatively short periods of time. Moreover, the collapse of the communist world and the exhaustion of import-substitution economic strategies in much of the developing world opened up a significant number of potentially new markets for both the production and distribution of goods. The net effect of these developments is the enhancement of the power of foreign investors *vis-à-vis* nation states in the developing world. This then informs the balance of power between the GNU and foreign investors. The GNU's estimates indicate that an annual average of US$509 million foreign direct investment is required to fulfill the targets of its macroeconomic strategy (Department of Finance, 1996, p. 13). This dependence on the resources of foreign investors in a global environment of increased competition among developing countries for foreign investment, dramatically enhances the power of foreign capital and weakens that of the GNU.

Finally, the balance of power between the GNU and the domestic business community was also configured in favor of the latter. For more than a decade, domestic capital had been reluctant to invest in new machinery, technology, and in the productive process more generally. As we have noted already the ratio of gross domestic investment to GDP declined from 27% to 15% over 1983–93 (IBCA, 1994, pp. 3, 20). The success of the GNU's macroeconomic strategy, however, is dependent on a massive increase in domestic private sector investment. An annual average of 11.7% private sector investment growth is needed if the macroeconomic strategy is to succeed in meeting its targets on curtailing unemployment. The GNU thus has to rebuild the confidence of the private sector and convince it to reinvest in the South African economy. This dependence on the resources of the private sector, increased the power of the business community and weakened that of the GNU (MERG, 1993, p. 73; Department of Finance, 1996, p. 13).

The analysis here demonstrates that the balance of power between the GNU and domestic and foreign economic actors was configured in favor of the business community, foreign investors and international financial agencies. This fact was not lost on political elites. As indicated earlier, Mandela recognized this as early as 1992 when he explicitly justified the moderation of the ANC's economic vision and proposals on the grounds that the country needed to attract foreign investment (*African Business*, November 1993). Similarly, Alec Erwin indicated in an interview that high levels of state debt forced the GNU to investigate alternative means of financing investment, including placing greater emphasis on the resources of the private sector (Interview with Alec Erwin, 1995).

The GNU's awareness of the balance of power in the economic arena, however, was most clearly reflected and expressed in Thabo Mbeki's "The State and Social Transformation." This document, released in 1996, explicitly identified the high government debt, the mobility of capital, and a changing global environment as inhibiting features that limited the abilities of the GNU to implement democratic transformation on its own. On the basis of this, Mbeki argued that the ANC should abandon its wish for "... the total defeat and suppression of the national and class forces responsible for ... apartheid," and focus on the establishment of a democratic state which would involve "a dialectical relationship with private capital as a social partner for development and social progress" (ANC, 1996, p. 22). This call for a strategic alliance between the state and capital was a milestone, not only because it signaled a significant departure from the ANC's traditional approach to alliances, but more so because it was premised on the explicit realization that the balance of power between the GNU and the private sector was configured in favor of the latter.

Interviews, statements by ANC leaders, and party documents, then, show that structural factors constrained the behavior and choices of key actors. Political elites perceived an unfavorable distribution of power in the economic arena, for advancing the developmentalist and regulatory economic vision advocated by MERG. This balance of power was defined in their view by the ideological hegemony of market discourse, and the state's dependence on the financial resources of international financial agencies, foreign investors, and the domestic business community. This structural distribution of power conditioned the behavior and decisions of political elites in the ANC and the state, and led them rethink their earlier economic proposals. This eventually culminated in the GNU's adoption and implementation of a neoliberal economic program.

6. THE ECONOMY ON THE EVE OF THE 1999 ELECTIONS [5]

The economic record of the GNU under GEAR is mixed, although there is little doubt that serious problems continue on the *real* side of the economy. On the more positive side, in GEAR terms, are minor improvements in the growth rate, a lowering of inflation, a reduction of the budget deficit, a narrowing of racial income inequality, some degree of black economic empowerment, movement, albeit slow, in respect of its privatization program, and some limited success in respect of exports and foreign capital inflows. In most of these areas, however, these 'successes' are not unambiguously positive, as we shall see. On the negative side, there is the growing problem of unemployment and a poor record of delivery in respect of some important areas of social and physical infrastructure.

In the period between April 1994 and end-1997 the growth rate improved. It was 2.7% in 1994, 3.4% in 1995, 3.0% in 1996, 1,5% in 1997 (SARB/QB, various issues). Although this may appear reasonable by some standards, it is still far below that which is required have an impact on employment and development in a country with South Africa's legacy of underdevelopment, poverty and inequality. The average real income per capita of R7007 in 1996 was in fact well below levels in the 1970s (Michie and Padayachee, 1997, pp. 12–13). The South African economy technically slipped into recession in the second half of 1998, when the growth rate (seasonally adjusted and annualised) fell by 2.5% in the third quarter, and by 0.5% in the fourth quarter, in the process driving the overall 1998 growth rate to zero (SARB/QB, various issues). In short, since 1996, South Africa's real GDP grew by just under 2 %, well below the rate of population growth (Adelzadeh, 1999, p. 2).

Racial income and wealth inequality narrowed marginally. We would suggest, on the basis of trends apparent in a study by McGrath and Whiteford (1994), that this narrowing was mainly the result of the impact of the significant growth in the income and wealth of a tiny section of the African population. An emerging African bourgeoisie, is now benefiting from (white) corporate unbundling and the privatization and commercialization of state assets (Adam, Slabbert & Moodley, 1997). Some large (English) conglomerates, including the Anglo-American Corporation, have recently begun to sell off some of their subsidiary companies to emerging black business, as they did in the immediate postwar era to Afrikaner capital. The acquisition and financing of these new black-controlled companies is far from transparent, and there have been suggestions that, given the still small capital base of these companies, most of these acquisitions have been financed by white South African capital or foreign banks and companies. Hence the question as to how real this "black economic empowerment" is, remains open.

Although the new Government is committed to privatization, not much in this direction has actually occurred, except for the partial sales of the state telecommunications parastatal, Telkom (still a monopoly), to SBC (USA) and Telekom (Malaysia), and of South African Airways to Swiss Air. In other parastatals, such as the giant transport network Transnet, blacks have made rapid advances into the highest levels of management, where salary levels and perks are equivalent to those earned by the top executives of the white conglomerates. While it is too early to make judgements about the overall success of these privatizations, there have been some gains, for example in terms of increased foreign capital inflows. This then suggests that selective privatization could be beneficial for and could be pursued by transitional polities, especially where it does not impact negatively on the provision of social goods (for example, electricity and water) for poor and marginalized communities who are invariably the most vulnerable in these societies.

Overall export growth has been steady since the early 1990s, although at least some part of this is due to the ending of sanctions, rather than marked changes in the fundamental competitive base for export industries. Manufacturing exports experienced exceptional growth between 1993 and 1995–96, but has since not performed well. In 1997 these exports faltered markedly, and by 1998 declined in absolute terms (SARB/QB, 1998; Laubscher, 1998, p. 1). South African imports have grown steadily in the more liberalized trade environment, partly negating the improvement in exports (SARB/QB, March 1998, pp. 13–16).

Increased capital inflows are a fundamental pillar of the GEAR strategy. Despite some gains, however, no clear upward trend has been established. Total net capital inflows in 1994 amounted to R4 billion; it surged to around R14 billion in 1995 or nearly 3% of GDP. The volume of capital inflows rose in late 1996 and continued throughout 1997 (CREFSA, 1998, pp. 2–6) In 1997 the country succeeded in floating foreign-currency denominated bonds, and in establishing a R7.5 billion credit line. Foreign capital inflows were also boosted (as we have noted above) by the proceeds of the partial sale of Telkom in that year (CREFSA, 1998, p. 2). Net short-term capital outflows, net bond sales by nonresidents and a slowing down of net long-term capital inflows, including Foreign Direct Investment, occurred in the volatile global context of 1998. In general sustained inflows of direct foreign investment, which many predicted or hoped would follow democratic change, have not materialized. Foreign capital inflows to South Africa in the last three years have been either short-term or highly mobile and volatile portfolio (equity) investment, albeit of large volumes, and these continued even throughout most of the period of the Asian crisis (CREFSA, 1998, p. 10).

On a related theme it is worth pointing out that South African companies sharply increased outward investments in 1997 by some US$2.3 billion (Adelzadeh, 1999, p. 2) and some of South Africa's largest conglomerates (including Anglo-American, South African Breweries, and SA Mutual, among others) secured (with government approval) primary listings on the London Stock Exchange in 1998 and 1999. The latter move they claim was to enable them to raise the large amounts of capital needed for their expansions in a more stable currency and at the competitive rates which a FTSE listing allows (*Financial Mail*, February 26, 1999). The implications of these developments for domestic capital mobilisation and for the growth and diversification of the national financial market may well prove to be negative in the medium to long term.

The independent South African Reserve Bank has followed a stringent monetary policy with positive real interest rates of around 10% in recent years, far higher, some would argue, than that needed to ensure the absence of "financial repression" (Weeks, 1999, p. 10). This has had the effect of forcing inflation down to single-digit figures, while raising the costs of borrowing, a factor which has severely constrained the operations of small and medium-sized companies, a sector important to the plans of government. The South African currency (the Rand) has remained under constant pressure for most of the last four years, and experienced sharp falls in relation to the dollar (and the currencies of most trading partner countries), in the first quarter of 1996, and again, partly because of east Asian contagion effects, in the middle of 1998 when it lost something like 20% of its value against the dollar and pound (Padayachee, 1998a,b). Indeed it has been acknowledged by the Reserve Bank and the IMF that the consequences for the currency and for the economy as a whole, could have been far more severe had it not been for the limited capital controls that continue to be in place. Perhaps the lesson then for transitional economies is that full liberalization is not advisable, especially given the highly volatile nature of contemporary global capital markets.

On the clearly negative side two major problem areas stand out. First, unemployment has worsened. A small growth in public sector employment in the immediate post-1994 period initially compensated for the steady decline in private sector employment. During 1996–98 however, both sectors have generally experienced a decline in aggregate employment (SARB/QB, September 1998, p. 2). GEAR in fact pins its employment growth projections on an increase in manufacturing employment; yet despite an increase in manufacturing output, employment in that sector has fallen. Output growth in manufacturing has been due largely to good performances by the capital-intensive chemicals industry and the basic metals sector, especially nonferrous basic metals, with one company, Alusaf, providing a significant share within this latter category (Freund & Padayachee, 1998, p. 1176).

Second, progress in respect of social and physical infrastructure delivery to the disadvantaged majority in the first four years has been painfully slow. This is an area in which the ANC promised significant improvement at the time of the 1994 elections. Some progress has been made in respect of electrification and water and sanitation services, although not all of this (especially in electrification) can be attributed to post-1994 policy initiatives. According to Eskom, electrification targets were exceeded in 1996 and 1997, with 800 new households being added each working day. By 1997 the Community Water Supply and Sanitation Program had provided basic water supply to almost two million people. Safe water was brought to 8.9 million people and sanitation to about 100,000 people. Over 1.2 million previously unserved people have been supplied with water (May & Gayadeen, 1999, pp. 40–41). Rural health services have also improved following the introduction of free primary health care to under-fives and mothers. But elsewhere the record has been either uneven (education) or mediocre (housing). Thus for example, only about 192,000 houses were built between March 1994 and April 1997. In 1998 some 385,000 houses were built or were under construction, and 700,000 subsidies approved, although this fell far short of targetted amounts (May & Gayadeen, 1999, p. 32). The GNU's target of one million new houses by 1999 appears out of range.

Financial constraints imposed by GEAR's stringent deficit reduction targets, coupled with problems in restructuring and refocusing the state bureaucracy (at all three levels), lack of essential capacity within the state, mismanagement, corruption, and a culture of nonpayment for services in many townships, have all combined to set back the delivery of social and physical infrastructure. Although there has been some apartheid dividend in the form of reduced defence expenditure, these have been more than offset by the increased expenditure in other areas of "protection" services such as police, justice, and prisons, in order to cope with the rapidly increasing levels of criminal and (in some regions) political violence. But significant improvements in tax administration and collection since 1997, following a restructuring of the state's revenue collection departments and the introduction of new technologies, is beginning to have some positive impact in easing budget constraints.

While South Africa escaped the worst effects of the first wave of the Asian financial crisis (from July–October 1997) by May 1998 the contagion effect hit the country with a devastating force. The defense of the currency mounted by the authorities—via among other things a steep hike in interest rates—severely dampened growth projections, although they did have the effect by October 1998 of driving out some of the hedge funds that had earlier taken damaging positions against the Rand (Padayachee, 1998a,b, p. 2931). Argument will rage on about the relative significance of global and domestic factors and policies in explaining the severity of the crisis that faced the South African economy by mid-1998. Weeks has tested the extent to which South Africa's economic underperformance might be explained by factors beyond the control of the government, i.e. the so-called External Factors Hypothesis. The tests he performed indicated that

> South Africa's performance was considerably worse than that for other middle-income countries, and worse than would be predicted on the basis of world market conditions. By inference, this conclusion directs attention to the macroeconomic policy of the South African government to explain the declining growth rate after 1996, i.e. to the GEAR itself (1999, p. 13).

Perhaps a more technical way of assessing the new Government's economic record is by comparing actual economic outcomes against the GEAR targets.[6] Consistent data are mainly available for 1996 and 1997. The GNU has achieved noticeable success in maintaining its budget deficit targets. It has kept its own consumption expenditure more or less in line with GEAR projections, although average real wages in the government sector (unlike the private sector) jumped beyond GEAR projections in 1997. It has held the line in respect of average tariff reductions, given its commitment to increased trade liberalization. Real nongold exports performed better than expected in 1996, but fell below GEAR projections in 1997. Although foreign direct investment was very much higher than GEAR projections in 1996 and 1997, most of the 1997 figure was due to the important but one-off settlement of the (partial) Telkom sale.

The real problem area remained the poor performance of real private sector investment. GEAR's stance was designed to boost private sector investment by an average of about 9% annually during 1996–98, before rising sharply to 13.9% and 17% in the last two years of the scenario. Instead the real rate of growth of private sector investment has fallen over the last three years, from 6.1% in 1996 to 3.1% in 1997, and it turned negative in 1998 (Adelzadeh, 1999, p. 2). This underscores the difficulties of pinning the growth strategy on the investment decisions of the South African private sector.

These trends in the model's characteristics have produced for both years a growth rate lower than projected; and an inflation rate that was better than expected. The real crisis has been the GNU's poor record on the employment front. Net job losses of 57,000 and 86,000 were recorded in 1996 and 1997 as against GEAR projections of 126,000 and 252,000 new jobs (South African Reserve Bank, 1998). Looked at slightly differently, GEAR predicted that employment in the formal, nonagricultural sector would rise by 1.3%, 3% and 2.7% from 1996–98, the bulk of the jobs to be created by the private sector. Total employment in the targeted sectors has been negative and falling, however, from −0.7% in 1996 to −1.7% in 1997. In 1998 the total number of registered unemployed "reached record levels" (Adelzadeh, 1999, p. 2).

The drop in gross private savings in general (and in relation to GEAR estimates) continues to be a matter of concern in the South African policy debate. Our view, following MERG, and in line with a growing body of evidence is that it is growth that influences savings; policy must therefore in the first instance be directed at generating a growing economy, suggesting a more active, interventionist and targetted role for state-led investment in the early phase of the economic reform process (Carroll & Weil, 1994; Sarel, 1996). At the very least the links between growth and savings runs both ways. GEAR, on the other hand, appears not to recognize this. It projects a sudden jump in (growth-promoting) public sector investment from an annual growth of 7.5% in 1999 to 16.7% in 2000, leaving (notoriously unpredictable) private sector investment decisions to lead growth in the earlier phases (Department of Finance, 1996, p. 8).

Mainstream supporters of GEAR have tended to argue that GEAR is fundamentally sound in the current global context, and that "expansionary" alternatives are not feasible. The failure to meet GEAR "targets," they would argue, is either the result of unexpected exogenous shocks, such as those generated by Asian contagion effects, and/or the result of an overoptimism by GEAR's drafters of economic and employment growth in the early years of the transition. Thus, for example Feinstein has observed that South Africa is experiencing a mild transitionary recession, and that a higher growth and employment trajectory is likely in the near future (Feinstein, 1998, pp. 34–35).

The difficulties in meeting economic expectations, whether generated by weaknesses in economic strategy or external shocks, have deepened divisions within South African society and polity, and have raised questions about the prospects for consolidating South Africa's fledgling democracy.

7. ECONOMIC PERFORMANCE AND THE PROSPECTS FOR THE CONSOLIDATION OF DEMOCRACY

The economic policies implemented by the ANC since 1994 have had a differential impact on various groups. Some such as conglomerate (white) business, the aspirant black bourgeoisie, and black professionals have benefited in the short term from the imposition of neoliberal economic policies. The conglomerates have benefited from the tax concessions, the lowering of inflation, and the privatization program. They have also benefited from steady exchange control liberalization (which has permitted the outward flow of increasing amounts of South African capital abroad), and from the opening up of new export markets and some new investment opportunities, especially in Africa and Asia. The aspirant black bourgeoisie has benefited from the privatization of public enterprises, the voluntary asset swaps from domestic white companies, and from the partnerships established with foreign investors that has become mandatory by government regulations. Black professionals have also benefited from promotions and more open employment practices as companies scramble to fulfill affirmative action quotas (see Adam, Slabbert & Moodley, 1997). These groups, the "insiders" of South Africa's democratic transition, comprise a minority of the population.

The "outsiders," the vast majority of the population who are mainly black, are excluded from the economic benefits of the transition. Indeed, the ANC's implementation of neoliberal economic policies has meant disaster for the vast majority of South Africa's poor. Increasing unemployment and economic inequalities associated with the neoliberal economic policies have also pushed even more of South Africa's population into the poverty trap. The marginalized existence of this underclass is wrenchingly and graphically captured in the words of Emma Makhaza who spoke at the recent poverty hearings hosted by the South African NGO Coalition (SANGOCO), South African Commission of Human Rights (SACHR), and Commission on Gender Equality (CGE)

> I am having seven children and nothing to depend on. I am making bricks and sometimes it rains and then I can't do it. And I collect food and take it to people. I fetch wood and collect cans of cold drink and sell them. When I am without food then I go next door and if they don't have then the children will have empty stomachs and I cry. Yesterday I left with my children fast asleep because they will ask me what we are going to eat. I am very thin because when I bought a bucket of mielie meal, I won't eat at all if I am thinking of the children. They say: Mum you are going to die (*The Peoples Voices*, 1998, p. 17).

This "near-barbaric" existence that a part of South Africa's population has been confined to may of course come to haunt the new political elite, however well intentioned they may be in their efforts to eradicate poverty. Two scenarios could present themselves in the short to medium term. First, the government's policies could (theoretically) provoke sufficient popular discontent to provoke an uprising that threatens the democratic order. This however, is highly unlikely given the widespread and historic support of the ANC, its political astuteness and ability to sell unpopular programs such as GEAR to a wide constituency, and the lack of independent social movements and political parties to organize and sustain such a "rebellion" (Gelb, 1996, p. 63; Marais, 1998, p. 263; Freund & Padayachee, 1998, p. 1178).

Second, the ANC's continued implementation of neoliberal economic policies and the lack of delivery that would accompany it, could generate widespread apathy among the populace and lead to high levels of discontent and the (further) criminalization of South African society and economy. This coupled with spontaneous sporadic resistance by disparate sections of the populace could create divisions and tensions within the activist and leadership community, prompting political elites to centralise power in the cabinet and presidency (Habib, 1997). Such a development would lead to what Guillermo O'Donnell (1993, 1994), in his research on Latin America, has termed delegative democracy, a political system in which representative political structures are weakened sufficiently to enable power to be centralized in and delegated to a leader and/or leadership. This second scenario seems to be the more likely; and there is increasing evidence that decision-making and power is being centralized at the apex of the political system (Southhall, 1998). Delegative democracy seems to be on the horizon.

8. CONSIDERATIONS FOR THEORIES OF TRANSITIONAL SOCIETIES

What lessons does this case study of the political economy of the South African transition hold for the existing theories of transitional societies? Two issues—one methodological, the other normative—immediately come to mind. The methodological suggestion raised by the South African case study is that the balance of power among actors must be theorized as an independent variable that conditions the political and socioeconomic outcomes in transitional societies. Much of the new generation of transition literature in the 1980s and 1990s is agency focussed (Di Palma, 1990; Higley & Gunther, 1992) and assumes that, in the words of O'Donnell and Schmitter (1986, p. 19), "what actors do and do not do seems much less tightly determined by macro-structural factors during the [current] transitions ... than during the breakdown of democratic regimes." The analysis here, however, suggests that the economic policy choices of state elites are far more constraining than assumed by O' Donnell and Schmitter.

In fact, the South African case study supports a third generation of studies (Karl, 1990; Huntington, 1991; Collier & Collier, 1991; Munck, 1994) which advocates "... an integrative agenda ... requir(ing) striking a balance between structural and agential factors that shape regime transformations" (Mahoney & Snyder, nd, p. 1). A recent example, and one that explicitly theorizes the balance of power, is Huber, Rueschemeyer and Stephens (1997), who argue that particular clusters of power shape the conditions of democratization and the possibilities for consolidation. These scholars identify three such clusters of power, namely, the balance of class power, the nature of state and state-society relations, and transnational structures of power. The case study undertaken here explicitly demonstrates that transnational structures of power and the balance of class power within South Africa enhanced the status of international financial agencies, foreign investors and domestic business *vis-à-vis* the South African government. It also demonstrates through reference to minutes, internal party documents, and interviews with leaders that political elites in the Government of National Unity (GNU) were aware of this unfavorable balance of power and as a result felt that they had little choice but to adopt a neoliberal economic program. The structural balance of power then conditioned the choices of political elites, and thereby influenced the substantive nature of South Africa's post-apartheid democratic order. Structures of power thus need to be explicitly theorized in the transitions literature as an independent variable that conditions the substantive nature of democratic transitions and the prospects for their consolidation in the developing world.

The second, normative issue raised by this case study is the necessity for democratizers to craft the principles of economic justice and redistribution onto the agendas of democratic transitions. This, of course, questions the almost unanimous view in the mainstream transition literature that issues of economic justice and redistribution be excluded from the ambit of decision-making of would-be-democratizers. From O'Donnell and Schmitter (1986) to Huntington (1991), the advice to would-be democratizers is simple: stay away from issues of economic justice for they will merely complicate the agenda of the transition. Such issues, they advise, weaken support for democratization from reformers within the regime, foreign governments, and other transnational actors. The choice they offer is one between formal democracy or authoritarian rule. Their advice would be to take formal democracy rather than have nothing at all.

This case study of the South African transition implicitly questions such advice. It demonstrates that failures to pursue an agenda of redistribution and economic justice, creates a crisis of delivery within the society. This crisis of delivery is partially responsible for the set of political pressures that subsequently emerged within South Africa, and that is currently leading to a regression of the political system into a form of delegative democracy. By following the advice of the mainstream transition literature, democratizers in the developing world are not confronted with the choice between formal democracy and authoritarian rule, but rather, as O'Donnell (1993; 1994) has indicated in the case of Latin America and this article in the case of South Africa, the option between delegative democracy and authoritarian rule. Although delegative democracy is far more preferable to fully blown authoritarian rule, it nevertheless is too unstable a political system and is forever vulnerable to further regressions into authoritarianism. Democratic consolidation in much of the developing world has thus become an illusion. The exclusion of socioeconomic justice and redistribution from the agenda of democratization then, while having facilitated breakthroughs in the transitions from authoritarianism, has undermined the long-term prospects for democratic consolidation.

9. CONCLUSION

The making of economic policy in South Africa's transition to democracy and the initial economic conditions and context under which such policy came to be fashioned, differed in some significant ways from the economic reform program in Eastern Europe and elsewhere. Key among these differences were that:

—markets and market-institutions, albeit heavily distorted by racial considerations, already existed, and in some areas such as finance, commerce and communications, were both sophisticated and globally-linked.

—South Africa possessed a powerful group of conglomerates that encompassed key elements of mining, finance, energy and industry, which worked ceaselessly throughout the transition to ensure that the new government would create the kind of macroeconomic stability that would facilitate the further globalization of their activities.

—despite slow growth, rising unemployment, poverty, inequality and racially skewed provision of social and physical infrastructure, crucial macroeconomic balances were sound—foreign debt was low, domestic debt though rising was within (even Maastricht) limits, and inflation was within a manageable range.

—the influence of the Washington institutions, though powerful, came via moral suasion, and was not enforced through conditionality with a structural adjustment program.

An imaginative, heterodox economic policy package was called for in 1994 that would have combined initiatives to expand markets across race and space with state intervention to address historical backlogs, support industrial restructuring, and reform financial and labor markets, among other things. Such ideas were proposed by ANC-supporting think tanks such as MERG, ISP (to some extent) and was supported in large measure in the RDP. Granted, the implementation of such policies may have flown in the face of *realpolitic* and made the transition more "messy." But we would maintain that a more state-interventionist economic program of the MERG-type may well have been acceptable to the Washington institutions in the context of the time. Moreover, the negotiations around such a program may well have forced would-be democratizers not to take existing power relations as given, but to pay attention to how such power relations could be transformed, and how to proceed with an economically redistributive agenda in, what would initially at least have been, an hostile environment. Thus, rather than having state elites seduced by the promise that foreign capital would pour into a liberalizing and privatizing economy after apartheid, a political process would have developed that would have forced the new government to address critical tasks relating to the identification of a proper role for the state, the restructuring and reorganization of state institutions (see on this Przeworski, 1997, p. 12), the development of new institutions and structures linking the state, private sector and grassroots organs of the community, and the mobilization of domestic financial resources. This kind of approach would have enabled the new South Africa to chart a development strategy geared to its own historical legacy and economic challenges, and in the process enhanced its prospects for consolidating democracy.

NOTES

1. Some of the arguments and detail in this section are drawn from Michie and Padayachee (1997) and Freund and Padayachee (1998).

2. It should be noted that one major problem here is that the salary structure still reflects apartheid, where white engineers, chemists, doctors, etc, were paid far above what the relative development of the economy could support. In the post-1994 period, the ANC-led GNU did not revise this salary structure, instead simply demanding that Africans be included within it—thus, foreign capital's continued complaint that salaries are too high.

3. In an interesting reversal of positions, Leslie Boyd, chairman of Anglo American Industrial Corporation, criticized the GNU for, among other things, proposing tariff reductions that outstripped GATT requirements. (*Sunday Times*, August 13, 1995).

4. President Thabo Mbeki indicated in his State of Nation Address in June 1999 that labor market policies that impede investment and job creation will be re-examined. Any significant movement in this direction will threaten one of the major progressive gains of the democratic era, and will weaken the case of those who use the Labor Relations Act as evidence to contest the claim that Government economic policy is essentially neoliberal in character.

5. For the sake of consistency economic data used in this section have been updated to end-1998.

6. One should note that the revisions to and recalibration of, macroeconomic data in 1998, especially the upward revisions of GDP figures, renders difficult the comparison of key economic ratios across these three years.

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