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CHAPTER NINE

THE GREAT U-TURN

"It has been remarkable to see how these former ideologues became pragmatists. As the world changed, they changed."

– JAMES JOSEPH, FORMER US AMBASSADOR TO SOUTH AFRICA

The African National Congress has undergone an astonishing about-turn in the formulation of its economic policy, from a left-wing socialist position that envisaged large-scale nationalization to a position where it has now embraced free-market orthodoxy that involves large-scale privatization.

This presents one of history's great paradoxes. The old apartheid regime, which proclaimed itself one of the most vehemently anti-communist on earth, ran an economy that established the largest amount of state-owned industry outside the Soviet bloc. Now the ANC, long portrayed by the old regime as a surrogate of Moscow and which is in a formal alliance with the South African Communist Party and the big trade union federation, Cosatu, is embracing the free market and privatizing those para-statals. What is more, it is communists and trade unionists in the new Cabinet who are spearheading this capitalist charge.

In January 1990, a month before he was released from prison, Nelson Mandela issued a press statement in which he declared: "The nationalization of the mines, the financial institutions and monopoly industry is the fundamental policy of the ANC and it is inconceivable that we will ever change this policy." Yet four years later, when the ANC assumed power, it had indeed done the inconceivable and dumped the policy of nationalization in favour of the free market. And four years after that Mandela and his chosen successor, Thabo Mbeki, both issued stinging rebukes to the SACP and Cosatu at their congresses for publicly criticising the ANC's change of tack and telling them in effect either to toe the line and accept the new policy or quit the alliance.

There are few parallels anywhere of such a startling U-turn, undertaken it must be noted in a volatile international economic climate and in the face of mounting unemployment, yet without producing a split

in the ruling alliance. At least not yet. It has indeed caused serious tensions, but at the time of this writing the alliance is still holding together, which says much for the skills of the political leadership.

The origins of the commitment to nationalization go back to June 1955 when the ANC, then not yet outlawed, convened a "Congress of the People" to formulate a vision of a South Africa beyond apartheid. The ANC had formed an alliance with the Indian National Congress (originally formed by Mohandas Gandhi in the early part of the century), the Coloured People's Congress, a white organization called the Congress of Democrats which contained many members of the Communist Party that had been outlawed five years before, and with the trade union movement, then called the South African Congress of Trade Unions (SACTU). They all participated in the event. The ANC invited others as well, the Liberal Party, later led by author Alan Paton, and the United Party which was then the rather effete opposition in the whites-only Parliament. Although these predominantly white parties did not attend, the invitations were a significant indication of the ANC's commitment to the principle of nonracialism.

Three thousand delegates turned up at the gathering, held on a battered stretch of *veld* under some eucalyptus trees at a place called Kliptown, in what is now part of Soweto. There, despite some provocative interventions by the police, the gathering drafted and adopted a Freedom Charter, an inspired declaration setting out the liberation movement's fundamental ideals that was to acquire the status of holy writ in the years ahead. Composed in sonorous language the Charter begins: "We, the People of South Africa, declare for all our country and the world to know: that South Africa belongs to all who live in it, black and white, and that no government can justly claim authority unless it is based on the will of the people." Then follows a manifesto of human rights and equality combined with a vision of radical political transformation, including the following critical passage:

> The national wealth of our country, the heritage of all South Africans, shall be restored to the people;
>
> The mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole;
>
> All other industries and trade shall be controlled to assist the well-being of all the people;
>
> All people shall have equal rights to trade where they choose, to manufacture and to enter all trades, crafts and professions.

There was also a passage which declared that the restriction on land ownership, which had been introduced with the Land Act in 1913 that prohibited blacks from owning land outside the tiny reserves which later formed the bantustans, would be ended, and that "all the land shall be re-divided amongst those who work it".

The Freedom Charter was adopted at a special congress of the ANC the following year and so became formal policy of the organization.[1] There was much debate in the years that followed about whether or not the charter was a blueprint for a socialist state. Particularly during the four-year Treason Trial in which 156 ANC leaders, including Mandela, were accused of participating in a conspiracy inspired by international communism to overthrow the state by violence, the defence made strenuous efforts to show that it was not. Thomas Hodgkin, a distinguished British scholar of African politics, likened its language to that of the British Fabians of the late nineteenth century, while Jack Simons, a Marxist academic who had been a member of the Central Committee of the SACP, stressed the omission of any reference to the abolition of classes which, he said, was "inexcusable" for a Marxist.[2] Nevertheless the principle of nationalization was certainly strongly implied, and in later years ANC leaders in exile spoke freely of a commitment to "nationalize the commanding heights of the economy".

Mandela's statement from prison reaffirming the ANC's commitment to nationalization was intended to quash rumours that had been published in the newspapers suggesting he had undergone a change of mind in recent years. The rumours were false. The prisoners on Robben Island had debated nationalization for years, and Mandela had always been convinced it was the right policy. He had seen how Afrikaner leaders had used it to advance, empower and enrich their own people, and he had argued during the Treason Trial that it would enable blacks to own their own mills and factories. He had been an admirer of the British Labour Party and taken note of how it had included Clause Four, providing for nationalization, in its constitution shortly before he went to prison. Prison, moreover, had kept him in something of a time capsule: he was not exposed to the general disillusionment with state-ownership that had set in around the world from the seventies onwards.

Mandela stuck stubbornly to his views after his release, arguing with Western diplomats that countries like Britain, Germany and Japan had all made use of nationalized industries to revive their economies after World War II. Apartheid had been the equivalent of a war against black South Africans, he reasoned. His words went down well in the

townships, but business leaders became increasingly worried. The *Financial Mail* railed at the ANC for being "muddled and confused" and, with a paternalism counter-productive to its purpose, advised business to "patiently and systematically educate blacks into the realities of the world".[3]

After Mandela made yet another public statement affirming the ANC's commitment to nationalization and two of his oldest colleagues and advisers, Walter Sisulu and Ahmed Kathrada, made statements of their own backing him up, I wrote a column in a Johannesburg newspaper on 15 August 1990 saying nationalization would be a serious mistake. I cited the example of Zambia's unhappy experience in nationalizing its copper mines soon after gaining independence from Britain in 1964. President Kenneth Kaunda, I noted, had to raise a large loan to pay compensation to the mining companies, Roan Selection Trust and the Anglo American Corporation. He then had to enter into a management contract with those companies, paying them to continue running the mines because the Zambian government did not have the expertise to do so.

That done, the copper price crashed, leaving Zambia with an enormous debt to service from depleted copper earnings, while Anglo American took the compensation money and established a hugely successful offshore subsidiary called Minorco. Many things had gone wrong in Zambia, I said, but its slide from copper-bottomed prosperity to worst-case penury had started with this ill-considered nationalization.

Gold mining in South Africa, I warned, was similarly an industry in decline, with both the gold price and production falling steadily. Taking over the mines would be hugely expensive: the market valuation of South African gold shares at the time was about R55 billion, which would mean adding that sum to the country's existing R88 million foreign debt that was already proving difficult to serve. At 15% interest, servicing the additional R55 billion debt would cost more than R8 billion a year.

"To achieve what?" I asked. "Last year, after tax, the gold mining companies paid a total of R2,1 billion in dividends. Since the state gets the tax anyway, that is the additional amount it would gain by nationalising the mines. An outlay of R8 billion a year to gain R2,1 billion! It makes no sense."[4]

Next morning my telephone rang and Mandela was on the line. "I've read your article and I'd like to talk to you about it," he said. "Won't you come and have lunch with me?" So I drove to his home in Soweto where we lunched and talked for three hours. I went through all the arguments in the article once again, stressing that the uneconomic figures aside, it seemed to make little sense for a new majority government to take on such a huge burden at the cost of other, more pressing priorities such as education and housing. Other ways should be found to compensate for the past and bring blacks into the economy as well as the political system.

He listened carefully but still seemed unconvinced, harking back repeatedly to the National Party government's success in helping its people advance through state-owned industries. Then in a moment of candour he turned to me and said: "But I don't know very much about economics. I must go and talk to some businessmen about this." It was the first hint that there might be room for a rethink.

One of the first businessmen Mandela talked to was Chris Liebenberg, the chief executive of Nedcor, a major banking corporation, whom he later appointed as his Minister of Finance. Like most of the business community Liebenberg was becoming increasingly worried about the ANC leader's repeated statements on nationalization, each of which caused the Johannesburg Stock Exchange to shudder, so he eventually telephoned ANC headquarters and asked for an appointment. To his surprise, Mandela agreed.

"I went across to Shell House (the ANC's headquarters building in downtown Johannesburg, now called Luthuli House) and spent an hour or so talking to him," Liebenberg told me later. "I told him why I thought nationalization was a bad idea, and he asked me to write a memorandum that he could study at his leisure."

Some time afterwards Mandela called Liebenberg to say he would like a further discussion. Liebenberg invited him to have dinner at the bank, where they were joined by Nedcor's chairman, John Maree, and its chief economist, Merton Dagut, who had been Head of the Department of Economics at the University of the Witwatersrand in Johannesburg. Mandela brought Trevor Manuel, the newly appointed head of the ANC's Department of Economic Planning. "We reinforced what I had put to him in the memorandum," Liebenberg recalls.

It was the start of a relationship of mutual trust and respect. The two met many times on a number of issues. Mandela met with other business leaders, too, notably Harry Oppenheimer, patriarch of the founding dynasty of the giant Anglo American Corporation. Oppenheimer put together a small forum of business leaders that became known as the Brenthurst Group, which met periodically with Mandela and other ANC leaders at the tycoon's mansion in Johannesburg to discuss economic

issues. The British and American ambassadors, Robin Renwick and Princeton Lyman, also put pressure on Mandela.

But as Anthony Sampson has noted, it was not until February 1992 when Mandela went to the World Economic Forum in Davos, high in the Swiss Alps, that he finally turned against nationalization.[5] In that rarefied atmosphere to which, in the words of Lewis Lapham, the sardonic editor of *Harpers Magazine*, the upper servants of the global economy make their way each year from the low-lying places of the earth to brood upon the mysteries of capitalist creation, Mandela underwent his epiphany. The routine at Davos is that the world's top politicians, bankers and industrialists mingle together at a series of presentations, lunches and dinners. As Mandela later confided to Ambassador Lyman, the ANC leader found himself being lionized by everyone, but as he went from table to table he found they all wanted to know about his position on nationalization. And when he told them, the message was the same: there was no way the new South Africa would be able to attract foreign investment if it stuck to its old philosophy.[6]

Mandela was finally turned, according to Sampson, by three sympathetic delegates from the left. "The Dutch Minister of Industry was sisterly and understanding, but smashed his argument. 'Look, that's what we understood then,' she explained, 'but now the economies of the world are interdependent. The process of globalization is taking root. No economy can develop separately from the economies of other countries.' Leaders from two Asian socialist countries – China and Vietnam – told him how they had accepted private enterprise, particularly after the Soviet Union collapsed."[7]

They changed his view entirely. That night Mandela struck out the passage on nationalization in a prepared speech he was due to deliver the next day and wrote a brief new paragraph in its place:

"We visualize a mixed economy in which the private sector would play a central and critical role to ensure the creation of wealth and jobs. Side by side with this, there will be a public sector perhaps no different from such countries as Germany, France and Italy where public enterprises constitute 9, 11 and 15 per cent of the economy respectively, and in which the state plays an important role in such areas as education, health and welfare."[8]

It was an enigmatic statement, in that the economy he would inherit when he came to power already contained a much larger public sector than that, which meant that in the haste of the moment he was actually implying a significant degree of privatization. Whether he realized this at the time is doubtful, but his change of mind was firm. He went on to make similar statements in Copenhagen and Paris, then returned home where, he told Sampson, he summoned other ANC leaders and told them: "Chaps we have to choose. We either keep nationalization and get no investment, or we modify our attitude and get investment."[9]

* * *

While Mandela was undergoing this slow but ultimately emphatic change of mind, the ANC as a body was experiencing a more incremental and uneven transformation of its own. The ANC had never been an ideologically homogeneous organization. From its inception in 1912 when its founder, Pixley ka Seme, summoned "African leaders" of all kinds to fight the iniquitous Land Act, from the small educated elite of the day to an array of tribal chiefs and elders, it has been an alliance of disparate elements drawn together for the common purpose of fighting racial oppression. When later it drew in white, Indian and Coloured leftists and formed its alliance with unionists and communists, it became even more eclectic and developed a tradition of robust internal debate, an organization which the young Nelson Mandela once aptly described as "an African parliament". In exile the range of nuanced ideological views widened still further as members became scattered across a global diaspora subject to a variety of local experiences. Some studying in Britain drew close to the British Labour Party, even working for it at constituency level, others became enamoured of Scandinavian social democracy, yet others studying in the Soviet Union and Eastern Europe became committed to – and ultimately disenchanted with – Soviet communism. Overall, the centre of political gravity was firmly to the left, but there was no agreed economic policy blueprint. When the ANC came home in 1990, the Freedom Charter of 35 years earlier was the only official statement of economic intent it had.

Indeed there was little discussion of economic policy, or any other post-apartheid policy issues, during the exile years. The struggle against apartheid was such an all-consuming subject that it excluded almost everything else. Only in the mid-1980s, when the great uprising in the black townships began to attract international attention and rattle the apartheid regime, did the exile leadership begin to focus a little more on policy issues inside the country.

I first became aware of this shift when I interviewed the ANC President, Oliver Tambo, in Lusaka in February 1986. After the interview he began questioning me about what was happening within

Afrikaner Nationalism, then asked me if I would talk to some of his colleagues on the subject. Next day I addressed 12 members of the ANC leadership group on the conflicts I could see developing in the ruling establishment and the growth of a reformist movement at its core. Their interest intrigued me, for until then the ANC leaders had seemed indifferent to the inner machinations of white South African politics, regarding it as irrelevant.

The reason for this sharpened interest only became clear to me much later when I eventually learned that Mandela's lawyer, George Bizos, had seen Tambo only a few days before my visit to inform him about a secret meeting that had taken place between Mandela and the South African Minister of Justice, Kobie Coetsee, in a Cape Town hospital three months earlier. The ANC leadership had heard rumours of the secret meeting and were understandably anxious about it, so Bizos had flown to Lusaka bearing a message from their imprisoned colleague to reassure them he was neither selling out nor being duped by the government but that he believed there might be the possibility of beginning a negotiation with the apartheid régime. Obviously the exiled leadership were intrigued by this remarkable turn of events and eager to gain some insight into what political forces in Afrikaner politics may have given rise to it and what it might portend. As we now know that secret meeting in the hospital led to others and in fact marked the start of the remarkable negotiating process that eventually culminated in South Africa's political transition from apartheid to democracy.[10]

As the number of clandestine contacts picked up, the first meeting between ANC economists and others from inside South Africa took place in 1986 at York University in the north of England. Professor Pieter le Roux, Director of the Institute for Social Development at the University of the Western Cape, which was later to become an economic think-tank for the ANC, was among those who attended. Le Roux recalls that the ANC and SACP members were eager to avoid conflict and present a moderate and reconciliatory image to the people who had come from South Africa. "I presented a paper in which I suggested that a social democratic dispensation was the most likely outcome in a post-apartheid South Africa," he says, "and they gave me a warm reception, telling me it was most interesting, even though some of the left-wing English academics were scornful of it. In their own presentations the ANC people said nothing about nationalization, but in private conversations it was quite clear they were still committed to the Freedom Charter." A second meeting in Amsterdam a few months later followed a similar pattern.

The most important of these early meetings took place in Lausanne, Switzerland, nearly three years later, in June 1989. The hawkish old President P W Botha was still in power and the ANC was still a banned organization, yet several of his senior government officials attended and interacted with the outlaws. They included Jan Lombard, Deputy Governor of the Reserve Bank, and Estian Calitz, Deputy Director-General of the Department of Finance and soon to become DG, who met up with Tito Mboweni and Maria Ramos, future heads of the Bank and the Treasury. Rudolph Gouws, Director-General of the Department of Manpower, together with members of the South African Chamber of Business and other leading business figures, including the heads of a major bank and a building society, Conrad Strauss and Bob Tucker, also attended. It was the first time economists from the ANC and the government met face-to-face and so marked the start of the real economic debate. It was also one of the most striking examples of the extraordinary process of secret talks that paved the way to South Africa's negotiated transformation.

Pieter le Roux organized the Lausanne meeting. "I thought it was important to get government and ANC economists together," he says. So he approached the Vice-Chancellor and Principal of his university, Jakes Gerwel, whom he knew had close contacts with the ANC, and an enlightened and innovative civil servant, Simon Brand, then head of the Development Bank of South Africa, who was well connected to key government officials. Gerwel reported back that Thabo Mbeki favoured the idea, and Brand gave Le Roux the names of senior civil servants he believed would be willing to attend – provided the meeting was billed as an international conference and not specifically a meeting with ANC economists. Le Roux also raised Swiss funding for the colloquium, as it came to be called.

And so it came about that these major figures from both sides of South Africa's bitter political battlefront came together for four days to talk about the economic future of their country in the company of an array of academic economists from Britain, the United States, Western and Eastern Europe and the Soviet Union. Lesser ANC figures and members of the internal United Democratic Front, essentially a front for the outlawed liberation movement, were also there. Ramos believes the encounter was an important wake-up call for the old adversaries who had disparaged one another for so long. "We disagreed about a lot of big things," she recalls, "but there was a good atmosphere with a lot of intellectual engagement on all the issues. I think it made the government and

business people realize we weren't just a bunch of people who didn't have the ability to think through these things, while on our side we felt the same about them."[11]

It was a remarkable gathering in a remarkable place. The colloquium was held in one of Europe's grandest hostelries, the Beau-Rivage Palace Hotel, a 150-year-old neo-baroque confection set in 11 acres of parkland in the grounds of Lausanne's Olympic Centre with panoramic views across Lake Geneva to the spectacular Swiss Alps beyond. This opulent pile, recently renovated to the full splendour of its glory days, was a favourite retreat of the rich and famous of the *Belle Epoch*: its leather-bound guest book contains the names of Coco Chanel, Noel Coward, Somerset Maugham, the Duke and Duchess of Windsor, and other faded European royals and Russian archdukes. With its spacious suites and magnificent reception rooms, the hotel must have presented something of a culture shock to the young "comrades" fresh from the street battles in South Africa's bleak black townships.

Le Roux's impression at the colloquium was that ANC interest in nationalization had declined compared with the York and Amsterdam meetings. The Berlin Wall had not fallen yet, but Soviet bloc economies were clearly in trouble and Mikhail Gorbachev's *perestroika* reforms were whittling away at the old ideology. Once again it was the British left-wingers, particularly from the School of Oriental and African Studies at London University, who were the strongest advocates of central planning while, ironically, it was an East German economist, Gerard Wittich, who offered the strongest warning against nationalization. When the ANC took over the country, Wittich noted with remarkable prescience, it would have difficulty finding enough qualified people to run the existing para-statals never mind additional nationalized corporations.[12] Even some of the advocates of nationalization warned that state ownership could be problematic. The huge cost of compensation was raised, and one suggestion was that the state could cut these costs by acquiring only 51% of shares or even less to have a state veto over decisions. Professor Rafael Kaplinsky, of Sussex University where Thabo Mbeki and other present-day leaders had studied, warned with keen foresight that the new South Africa would run into a skills problem since, as he put it, the days of "Fordism", or simple routine production-line work, were over and modern industries now required highly trained multi-skilled workers.

Six months later the ANC and its allied organizations were unbanned, and in April 1990 economists from all three alliance partners met in the Zimbabwe capital of Harare to prepare a draft economic policy document. It was a significant event: not only was this the first statement of economic policy since the Freedom Charter, but as Ramos recalls: "While nationalization was still very much part of the thinking, it was already being tempered by the reality of the world we were living in, by the realization that economies had to globalize, that South Africa had to come out of a long period of isolation and become globally competitive." And so there began a shift away from the Charter's call towards the Asian model of a "developmental state". The state would still play a central role, but not in a socialist manner. Instead it would intervene to direct economic activity in a way that would bring about "growth through redistribution". The state would do this by redistributing income to the black poor, which would increase demand, production and job-creation, all of which would generate growth. The private sector would have to obey the government's directives. "The ANC would prefer that these essential reforms were carried out in co-operation with business," the document said, "but if such co-operation were not forthcoming, a future democratic government could not shirk its duty."

Not surprisingly, the business community was not happy with this formula for macro-economic populism. Even some pro-ANC economists warned that several Latin American countries, notably Peru under Alan Garcia in the 1980s, had tried such policies only to find that the swelled demand soon outstripped the country's capacity to produce, causing prices to rise, imports to rocket and exports to fall. The result was that they achieved spectacular growth to begin with but then ran into crippling foreign exchange shortages, runaway inflation and ultimately a debt trap. Peru ended up in 1989 with a 20% contraction in gross domestic product, a 50% fall in real urban wages, and 2 775% inflation. "For countries like South Africa, playing around with demand is risky," warned economist Terence Moll. "The danger is that errors in controlled aggregate demand can lead to all kinds of nasty developments."[13]

The criticism made an impact. A redraft of the policy document was submitted to the ANC's National Conference in Durban in July 1991, but it was not formally adopted. Instead the document was extensively discussed throughout the ANC's regions and eventually a modified version was produced. But essentially it remained a growth through redistribution model.

Nearly a year later, in March 1992 – just one month after Mandela's critical meeting in Davos – a new think-tank exercise saw the start of

another fundamental shift in ANC economic thinking – this time away from the growth through redistribution model and towards economic reforms aimed at attracting fixed investment. Again Pieter le Roux was the organizer. He invited a large group of academic economists, and representatives of all political organizations as well as trade unions, business and civic organizations, to spend three weekends over four months at a conference centre in the Western Cape winelands called Mont Fleur, playing out a series of possible scenarios for a post-apartheid South Africa.

The sessions began with a presentation by Derek Keys, the former mining house chief executive who by then had become De Klerk's Minister of Finance, of the grim state of the South African economy. Since 1980, Keys told the gathering, there had been "a cancerous growth of government consumption expenditure at the expense of investment". Economic growth and per capita GDP had declined. Now the country's traditional growth path was under threat because the technological revolution was shifting the terms of trade against primary product exporters. The long racial conflict, combined with labour militancy, had undermined business confidence. A massive rise in unemployment lay ahead. Rapid urbanization was overwhelming the cities, rural areas were collapsing, political and criminal violence was exploding, black schools were often not functioning, the health system was not coping with increasing demands, and the social fabric of the black majority population was being torn apart. The conclusion of Keys's presentation was that if trends of the past 10 to 15 years could not be reversed, "all problems will become insoluble well before the end of this decade."

Sobering stuff indeed for the liberation movements, who had dreamed for years that when eventually they came to power they would inherit a well-developed and healthy economy that would enable them to launch a range of social welfare programmes to uplift their people who had been oppressed and discriminated against for so long. It focussed their minds on the limited possibilities that lay ahead of them, and was an important preparation for the scenario games they were about to play.

Initially 32 future scenarios were put on the table, which were then boiled down to four which separate groups had to study and play out before the full audience. The scenarios were given colourful names – The Ostrich Act, in which the old regime refused to settle in the face of liberation movement demands it regarded as too radical and decided to use its military-security strength to hold on to power for at least another decade; The Lame Duck, in which a constitutional settlement was reached which tried to allay white fears by ensuring a long transition of five to eight years with many "sunset clauses" giving the old regime a veto right on economic policies; Icarus, in which the new government embarked on a policy of macro-economic populism, trying to prime-pump the demand side of the economy with big increases in wages and government spending; and The Flight of the Flamingos, in which the parties negotiated a political system with a high degree of legitimacy and the new regime made a lot of social investment within a framework of fiscal discipline and adopted balanced economic policies aimed at creating conditions to attract fixed investments and a reorientation of the industrial sector towards the export of manufactured goods.

Trevor Manuel, the future Finance Minister, and Tito Mboweni, the future Governor of the Reserve Bank, both participated in the team which presented the Flight of the Flamingos scenario and which was acclaimed the preferred course to follow. For Manuel especially it was a watershed experience. He arrived at Mont Fleur a convinced supporter of the "growth through redistribution" model, but in the course of the scenario playing came to see its high risks. "Mont Fleur was actually quite profound in my thinking," he told me some years later.

It was not only the scenario itself that influenced him, but Keys. The scenario players took a break one Saturday afternoon when some went to watch a key rugby match in Cape Town. Keys stayed. "Derek sat around and chatted with us, and it was very important," Manuel recalls, "because we were trying to understand the Icarus scenario and the dangers of macro-economic populism. That was certainly profound for me." It was the start of a friendship and a mentoring relationship across the political divide that Manuel and others admit was important in preparing the young team for the tough task that lay ahead.

Two months later the ANC held a major policy conference and drafted a comprehensive set of policy guidelines called *Ready to Govern*. The section on economic policy was a watershed. Firstly, the threats to business were gone. "We envisage a dynamic private sector," the document declared, "employing the skills and acumen of all South Africans, making a contribution to the provision of good quality, attractive and competitively priced goods and services for all South Africans."[14] It downplayed the role of the state, saying that while it would still oversee the general direction of the economy the state's role would be primarily to provide infrastructure and welfare payments. Most important

of all, for the first time it held out the possibility of privatization. It did not use the dread word: as Manuel explains, Mandela in his inimitable style drew them aside saying: "Come, boys, I need to talk to you. Look, there's Joe Slovo (the Communist Party leader). He can handle the concept but the word privatization is going to be very difficult for him." So while the word was struck out, the concept remained clear enough. In assessing "the balance of evidence in restructuring the public sector", the document says, the new democratic state would consider:

> "*Increasing the public sector in strategic areas through, for example, nationalization, purchasing a shareholding in companies, establishing new public corporations or joint ventures with the private sector;
>
> * Reducing the public sector in certain areas in ways that will enhance efficiency, advance affirmative action and empower the historically disadvantaged, while ensuring the protection of both consumers and the rights and employment of workers.
>
> Such a mixed economy will foster a new and constructive relationship between the people, the state, the trade union movement, the private sector and the market."[15]

So the door for a complete about-turn on economic policy was open. As William Kentridge noted soon afterwards: "Three years and three generations of policy positions have wrought a sea change in ANC economic thinking, indicative of a growing pragmatism in policy-making and a willingness to engage with, and accommodate, supporters and critics alike."[16]

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But before that gap was taken there was one more twist on the road to free-market capitalism. On a trip to Canada not long after his release, Mandela elicited a promise from Prime Minister Brian Mulroney to help the ANC improve its understanding of economic matters. This led to a Canadian aid agency visiting South Africa in July 1991, where it concluded that the ANC's Department of Economic Policy (DEP) was far too small and inexperienced to cope with the mass of diverse issues confronting it. The agency proposed a new body to help co-ordinate research and construct a comprehensive macro-economic model for the ANC, taking the *Ready to Govern* document as its starting point, while the DEP formed itself into shadow ministries. The result was that in mid-1992, shortly after the *Ready to Govern* document was adopted, a high-powered unit known as the Macro-Economic Research Group, or MERG, was established. It drew on 100 economic specialists, most of them foreign academics, and included leading ANC, Cosatu and SACP figures together with local academics, who worked under the co-ordinating chairmanship of a long-time ANC economic adviser, Vella Pillay, a consultant to the Bank of China based in London.

Significantly the four people who today are at the heart of managing the South African economy, Trevor Manuel and Maria Ramos at the Treasury, Tito Mboweni at the Reserve Bank, and Alec Erwin, the Minister of Trade and Industry, were all part of MERG.

The group worked for 16 months, then presented its report, a glossy bound volume of 300 pages entitled *Making Democracy Work,* to the ANC and the business community at a ceremony in Johannesburg's Rosebank Hotel in November 1993 – just six months before the ANC came to power as the leading partner in the Government of National Unity. But the report never saw the light of day. It was stillborn. Even before it was published, Mandela withdrew his offer to write a foreword, and when I sought a copy at ANC headquarters some years later there was none to be found.

Indeed even as Pillay presented his report that November, the ANC's two key economic specialists, Manuel and Erwin, were drafting a secret letter of intent to the International Monetary Fund on behalf of all parties involved in the Negotiating Council seeking an $850 million loan, ostensibly for drought relief. The letter committed the incoming government to cut the budget deficit by 6% of gross domestic product in the coming financial year, maintain a high interest-rate policy and continue to open the economy to competition from other countries – all steps that flew in the face of MERG's proposals. Moreover, by then the ANC had already adopted clauses in a new Bill of Rights entrenching property rights which drew them still further away from nationalization.

There were two interrelated reasons for the rejection of the MERG report. Firstly, members of the DEP felt their work was being usurped by outsiders and they resented this. Some local economists felt the preparation of the report was being driven by the overseas academics. As one observed sourly, not since colonial days had South Africa's economic policy been driven by foreigners.[17] But more important, by then ANC thinking was already beginning to move in a free-market direction while MERG advocated heavy state intervention in the economy, not so much for orthodox socialist purposes but in line with the Asian developmental state model. The MERG team contained some heavyweight economists from the School of Oriental and African Studies at

the University of London who were strongly influenced by the success of the emergent "Asian Tiger" economies – particularly Japan, Taiwan, South Korea and Singapore – all of which featured systems of heavily managed capitalism.

What MERG presented was a ten-year reconstruction plan, divided into two five-year phases. The programme did not recommend any large-scale nationalization of industry: indeed its only concession to the Freedom Charter's pledge was a proposal to make a token transfer of the ownership of wealth to the black majority by establishing "compulsory funds" that could buy shares in listed companies.[18] The basis of its recommended programme was an acceptance of capitalism with a vigorous private sector and a strong drive to encourage local and foreign investment, but combined with heavy strategic intervention by the state to direct the economy. Significantly, no representatives of business were included in the research group, otherwise some might have pointed out the inherent contradiction between these two aims.

Meanwhile, the De Klerk government with Keys at the Ministry of Finance was itself beginning to reconstruct the economy, away from the isolationist "national socialism" of the apartheid era towards a more orthodox free-market policy called the Normative Economic Model. It advocated privatization, deregulation and competition to stimulate private sector investment, higher growth and employment. This policy MERG proceeded to trash, arguing that it would perpetuate white privilege and leave the poor to benefit only from dubious "trickle-down" effects, whereas MERG wanted to target the poor directly. "MERG is convinced that a sea change in economic policy is essential," the report declared.[19] This sea change, essentially a classic growth through redistribution formula, was embodied in the ten-year plan.

Phase One of the plan consisted of a programme of heavy state investment in human development and physical infrastructure, with public works projects focussed on housing, rural water supply, road development, health services, electrification and, above all, a massive educational and training programme to uplift the skills level of the labour force. Strategies were also proposed to encourage savings and channel these into domestic investment to boost demand.

More controversially, the programme called for a national minimum wage double that paid to millions of farm workers, domestic servants and participants in public works and drought relief programmes.[20] In an interview some months later MERG's chairman, Vella Pillay, advocated an immediate 30% to 40% increase in black wages, funded by a decrease in corporate profits, which he said would boost demand and "provide the spurt to secure the economy's long-term growth and expansion".[21] This was pure macro-economic populism, the high-flying Icarus of the Mont Fleur scenarios. As Nicoli Nattrass, then a pro-ANC economist at the University of the Western Cape, warned in a sharp criticism of the MERG report which she described as "uneven and schizophrenic", this would almost certainly increase unemployment as employers retrenched to cut costs. Maybe not in Singapore with its highly skilled labour force, but in South Africa certainly. "Given South Africa's huge surplus of desperately poor unskilled people, it seems better to provide as many jobs to the poor as possible than it is to provide the lucky few with over double the going wage in agriculture," Nattrass added in an observation that was to resonate in the years ahead.[22]

This initial five-year phase of the MERG programme envisaged a rapid increase in corporate sector investment that would put the economy into a "sustained growth phase", boosting the growth rate to 4,5% and creating 300 000 new jobs a year by 2004. However, the anticipated private sector investment would have to take place in the face of pervasive state intervention in the economy. The MERG planners were sanguine about this, brushing aside the possibility that investors might be put off by the prospect of so much bureaucratic regulation and simply decide not to come – in which case the whole growth phase would be stillborn. As Nattrass noted: "The weak link in MERG's strategy is its failure to address the issue of business confidence."

The recommendations included intervention in the output and pricing decisions of the minerals sector; regulation of the housing and building supplies market; extending controls over mergers and acquisitions; monitoring the behaviour of participants in oligopolistic markets; creating supervisory boards with bank and trade union representatives to oversee the making of big companies; and, most controversial of all, a Capital Issues Commission to examine and authorize company plans for new investments. The commission's purpose, the report said, would be "to channel funds into private sector investments which have a high national priority (and) … to ensure that companies raising capital conform with national policy on ethnic and gender employment and other policies." MERG also advocated placing the Reserve Bank under political control.[23]

The proposals to boost education and raise the skills level of the labour force were imaginative and ambitious. Whether they were

affordable is another matter. The starting point was to ensure that all children were given ten years of schooling. Under the apartheid regime schooling was not only racially segregated but grotesquely unequal. While it was compulsory and free for white children, black children were required to pay school fees, school facilities were appallingly inadequate, more than 60% of teachers were themselves under-educated, and schooling was not compulsory, which meant more than half the black children of school-going age were not in school at all.

But it was in adult education than the MERG proposals were most radical and ambitious. Noting that the vast majority of economically active black people were neither literate nor numerate – less than 2% matriculated with mathematics between 1990 and 1993, and 0,2% matriculated with both science and maths – the report nevertheless argued that "behind the label of unskilled (black) work there exists a large pool of unrecognized skill and a poorly motivated labour force."[24] Those talents, it reckoned, could be rapidly developed by an ambitious education and training programme.

Beginning in 1994, 50 000 lower-skilled employees should enter a programme that would see them in school one day a week. Each year another 50 000 would enter the programme which would last four years, thus bringing 200 000 under-educated workers up to the level of Standard Eight, or Grade 10. Those who achieved basic literacy and numeracy should then enter a further two-year course, taking them to matriculation.

Meanwhile, 100 000 unemployed people should be taken up each year in public works projects, embarking at the same time on a similar one-day-a-week training programme lasting four years.

In addition, private sector firms should be required to take on a number of new workers from the pool of unemployed – the numbers being determined according to the firms' staff complements and skills bases. Once taken on, these new employees would also embark on a one-day-a-week, four-year training programme. To encourage private firms to participate, the government should pay a subsidy of 20% to 30% of the training costs. To coerce them, only firms that participated should be allowed a role in the wide range of state infrastructure projects that would be launched.

Overall the MERG report was an elaborate document that involved much detailed hard work, and many of the foreign participants who contributed time, effort and expertise into compiling it, especially chairman Pillay, were bitter that it was brushed aside. But the reason it was so unceremoniously dumped is one of the most instructive chapters in the ANC story. Planning in the abstract is one thing; confronting the realities of power in the new globalized world is quite another.

* * *

The ANC confronted those realities within days of being sworn in to power on 11 May 1994. As they moved from Pretoria to the legislative capital of Cape Town, into what was still called the Hendrik Verwoerd Building opposite the gracious old Victorian red-brick Houses of Parliament, the new administrators found they had inherited not only the horrendous social distortions inflicted by 342 years of racial oppression, but also a legacy of massive fiscal and administrative incompetence as well.

Despite Derek Keys's pre-election warnings, at Mont Fleur and later at a *bosberaad*, or bush conference, with De Klerk's Cabinet at a game reserve called D'Nyala near the small town of Ellisras in what is now Limpopo Province, the ANC leadership had been massively preoccupied during the last stages of the negotiations and in the run-up to the first democratic election with the task of warding off a violent counter-revolution by white right-wing extremists and Chief Mangosuthu Buthelezi's Inkatha Freedom Party and bringing them into the transition agreement. Economic policy had become increasingly important in ANC thinking after the unbanning, but now in this last phase before the transition and with the excitement of the election itself, it had been somewhat eclipsed. Many in the ANC also had romantic ideas of what governments could do, ignoring both economic constraints and the cumbersome nature of bureaucratic procedures. Now as they settled in to their new offices with wide picture windows looking out on the glorious vista of Table Mountain, they were in for a shock.

Their first task was to prepare for a new national budget, and as the vital statistics of the economy landed on their desks they realized the country was close to bankruptcy. It was down to three weeks of foreign exchange reserves, in the last days of their putative independence the bantustan leaders had run up staggering debts of more than R14 billion, and the economy as a whole was in distress. "It hadn't been growing since 1984," says Iraj Abedian, an Iranian-born economist who was then one of the key advisers to the ANC leadership.[25] "The tax base wasn't growing, there had been disinvestment and boycotts, all of which meant the economy had gone through ten years of fiscal crunch. Now the ANC inherited that crunch."

From the inside Mac Maharaj, who had been part of the Transitional Executive Committee that had effectively run the country in the final run-up to the election, saw this as the defining moment in the ANC's great U-Turn. A change of direction brought about not by a Damascus Road conversion, he says, but by force of circumstances. "It was driven by necessity, very harsh necessity. By the time the figures started to emerge, it was clear there were no funds to run any kind of socialist experiment."

Quite apart from MERG's disincentives to investors, the economic figures made that report's proposals for lavish spending and wage increases look like a Christmas wish list. Even if the ANC had adopted the recommendations they would have had to be abandoned. And so the report was thrown out in its entirety – which, unfortunately, meant some of its better proposals, in adult education and skills training and for public works projects, went out with the bathwater. But more of that later.

Nor was it only an economy in stress that the new regime found it had inherited. Its dowry included a shambles of mismanagement. Most white South Africans thought – and many still think – that, apartheid aside, South Africa had been efficiently run by the white regime and that now, like the rest of Africa, it was going to the dogs under a black regime. The reverse is the case.

The most startling example of this was the discovery, early in the new regime, that the giant Electricity Supply Commission, Eskom, the world's fourth-largest power generator and the R150 billion jewel in South Africa's crown of state-owned corporations, had no legal basis for its existence. For years Eskom had been regarded as the most solid of national institutions. It had issued bonds inside the country and abroad, to investors in Britain, Germany, Switzerland and elsewhere. Yet what none of the investors knew was that, in Abedian's words, "it was basically a non-existing legal entity". The apartheid government had enacted legislation which regulated Eskom's service provision but it did not cover ownership. There was nothing to establish who owned it.

As politicians, the ANC could have made a meal of this discovery. They could have trashed De Klerk's National Party and exposed its administrative incompetence. But they took fright: public disclosure of such a gross dereliction of administrative diligence involving such a huge institution could, according to Abedian, "have sunk the country into a financial chasm". So the new regime decided to keep mum and fix the legal bungle quietly.

Ramos, who discovered the legal flaw soon after joining the Department of Finance which she now heads, regards it as symptomatic of wider incompetence on the part of the old regime. One of five sisters of Greek immigrant parents, Ramos trained in Britain, lectured at the London School of Economics and worked for ten years as a risk analyst at a bank. Young, smart and energetic, she pitched into her speciality and, noting that the new government had taken over the national debt, set about checking what these liabilities were. With talk of privatization now in the air, Ramos also began checking on the covenants covering the parastatal corporations that might be sold. Who owned them? What were they worth? How did one determine value? It was then that she hit upon the absence of any legal basis to Eskom's ownership.

It was then, too, that Ramos uncovered the huge liabilities incurred by the bantustans. Their leaders had been on a spending spree in the dying days of apartheid and there were no records of what they had squandered. Finding out was a massive task. In one instance the BophuthaTswana government of Chief Lucas Mangope had bought shares in a foreign company called Ininco, which Ramos discovered had never existed. "We spent tens of thousands of rands in lawyers' fees trying to track that one down," she recalls. The apartheid regime had also established 158 so-called financial development institutions at national level, in the provinces and in the bantustans, all of which had run up heavy liabilities. Again there was no proper data. As far as Ramos could see, there had been no financial management systems in place under the old regime. "These guys never bothered to do any of that," she told me. "Debt management was not a concept I found in the Department of Finance.

"There was an administration, pretty junior people, whose job of debt management involved simply ensuring that every six months people would pay the interest on the bonds they were holding. There wasn't a sense of maturity, of deficit, of managing an enormous portfolio of liabilities, of deciding when you want to borrow, for what maturities and for what reason, and trying to determine what risks you were prepared to take. There was nothing of that."

Compounding the problem of administrative incompetence was one of delivery. The rookie regime, eager to get cracking with transforming the country, ran up against an ossified bureaucracy of mostly white Afrikaner males who had served a white population under siege all their lives and had neither the mindset nor the policy-making capacity

to develop strategies that would meet the objectives of the new regime. Journalist John Matisonn quoted one eager new technocrat as likening his work in government to standing in front of a long piece of string. "You want to do something. You can't do it yourself, because it's too far away. So you push the string – and all that happens is that your end compresses a few centimetres. Nothing else moves."[26]

Ramos puts a more domestic touch to her imagery. "Arriving in the department was like arriving in a place that has been closed up for a very long time and you open up all the windows and pull down the old curtains and you start to spring clean and fumigate. It was an old environment, it was male, it was white, it was closed and fetid."

But not all the problems can be laid at the door of the old regime. The newcomers were not well equipped either for the huge task they faced. Having thrown out MERG, the ANC had no detailed economic programme to begin putting into effect from day one. The nearest they had was a document called the Reconstruction and Development Programme, or RDP, which had been hastily crafted in preparation for the election campaign. But it was an inadequate and problematic document.

As the ANC's economic thinking had begun to shift from 1990 onwards, differences became increasingly apparent between it and its alliance partners, Cosatu and the SACP, both of whom were more wedded to the socialist ideal. Cosatu in particular was much more taken with MERG's proposals than the ANC leadership was, so that when it came time to draft an election platform Cosatu decided to put its proposals on the table early to ensure maximum input. Its General Secretary, Jay Naidoo, prepared the first draft of the RDP, which then became the alliance's basic working document. Later Manuel and Ramos became involved in the economic section. In all the RDP document went through six drafts, and what eventually emerged was a wordy compromise between the two positions, strong on rhetoric with many pledges to deliver "a better life for all", but weak on how actually to deliver on those promises.

The RDP set ambitious targets: in five years it would redistribute "a substantial amount of land" to the landless black population, it would build a million houses, provide clean water and sanitation for everyone, electrify 2,5 million houses and provide access for all to education, health care and telecommunication facilities.

But the economic section was riddled with ambiguities. While promising all these things, the RDP also pledged the government to "avoid undue inflation and balance of payments difficulties". It would redirect government spending rather than increasing it as a proportion of the gross domestic product. And while pledging to "pay attention to macro-economic balance", the RDP also promised to "meet the basic needs of the people – jobs, land, housing, water, electricity, communications, health care and social welfare."

It was really an election manifesto rather than a systematic set of policy programmes, and even though the new regime has in fact achieved a commendable number of these goals and come close on others, the RDP as it was structured was an impossible administrative instrument. With such ambiguities it was not clear what it meant, or how to implement it. There was no operational plan to put it into effect.

President Mandela put Jay Naidoo in charge of the RDP, as Minister Without Portfolio. It was an administrative disaster. Naidoo had no department or proper budget of his own and no clear line of authority within the administration. It meant that to pursue the RDP's objectives he was constantly parachuting into the territory of other ministers. This caused confusion and resentment. All kinds of co-ordination problems arose.

With the RDP proving an inadequate tool for the tough job at hand, other economic problems arose. While significant foreign exchange did flow into the country during the first year of the new administration, it soon began to tail off. At the same time a conflict of strategies between the Reserve Bank and the government arose. Alec Erwin at Trade and Industry began opening up South Africa's isolated economy to greater world trade by cutting subsidies and slashing through the country's hideously complex web of tariffs and industrial regulations. At the same time the conservative Chris Stals, held over from the old regime as Governor of the Reserve Bank and no doubt nervous about what these rookies were doing, focussed on protecting the rand currency by raising interest rates. It was a deadly combination. If you cut subsidies and import tariffs while keeping the currency hard, you kill local industry. The hard currency stifles exports and if the government no longer helps manufacturers with subsidies they are at the mercy of importers who, with import tariffs gone, can undercut them.

This began to happen in 1995, which became a watershed year for the new regime. As the economy sputtered, Erwin, travelling abroad with Ramos and Naidoo to launch an international dollar bond, also found that the international finance markets in Frankfurt, Milan, London and New York had one overriding concern: they wanted to know whether this new team would be able to get the country's macro-

economic balances right. "They weren't interested in hearing you waffle on about all sorts of other things," says Erwin. "The RDP talks of macro-economic balance, but we had such imprecise answers we couldn't deal with their questions properly because they'd know we were talking crap."[27] The government realized it needed a new growth strategy with a more precise macro-economic framework to guide it.

So in mid-1995 Erwin set up a team to develop such a programme, with Abedian as technical co-ordinator. The team worked for nine months, then produced a policy document called Growth, Employment and Redistribution, or GEAR, which Manuel presented to Parliament on 14 June 1996. The government has insisted ever since that GEAR did not replace the RDP, that, in Erwin's words, "the RDP is embedded in GEAR" which is simply "a strategy to finance the programme". But in fact the RDP disappeared as a political slogan which had acquired talismanic importance to the alliance partners, and Naidoo's job went with it. The former Cosatu Secretary-General became Minister of Posts, Telegraphs and Broadcasting in the Mandela Cabinet, the RDP office was closed, and the programme's goals were assigned to the various government departments.

More than that, GEAR was an unvarnished free-market programme, directly in line with the neo-liberal agenda, or what is known as the "Washington consensus", a combination of relaxed exchange rates, privatization, fiscal discipline and collaboration with the private sector to produce export-driven growth.

The irony is that Erwin, GEAR's initiator and now as Minister of Trade and Industry its key driving force, is a member of the Communist Party who came to government from the most radical of South Africa's trade unions, the National Union of Metalworkers. I also recall a conference in Paris in 1991 when Erwin froze the room with an outburst at a group of businessmen who had riled him, telling them: "You guys have had your turn. When we come to power we will capture the commanding heights of the economy, the state will nationalize the private sector." But Erwin was no conventional leftist. He only joined the SACP in 1990, when international communism was collapsing. When I suggested to him once in a moment of levity that he must surely be the only rat ever to have joined a sinking ship, his serious reply was that he had always been a Marxist but had shrunk from joining the party because it was too doctrinaire. With the collapse of Soviet communism he believed the SACP could democratize and become more pragmatic. Today the business community, at home and abroad, admires Erwin enormously, regarding him as perhaps the most enlightened and competent member of the Cabinet, but he insists he is still a Marxist. "It's a system of analysis," he says. "When I approach an economic problem today I approach it from a Marxist perspective. We all do. But that doesn't stop us from recognising the power of the market.

"The most important thing," he adds, "is that we are not utopian. If the capitalist system is dominant, if powerful global forces are there and they are real, then it's pointless trying to implement a programme that has no bearing on the present."

With the change of GEAR there also came an awareness that privatization, far from being a selling-off of the family silver, could have important developmental advantages. It could mean considerable injections of investment capital as well as modern technology and skills which the state itself could never afford. Moreover the sale of these major assets could bring in substantial capital sums to help fund social spending. Imaginatively managed, privatization could also further black advancement in the private sector by favouring buyers who included black partners in their consortia. Ways could even be found to deal with the main worry about privatization, which is that private companies would not provide essential services to uneconomic sectors of the country. The state could maintain an effective controlling share, or offer incentives to the private companies to provide the essential services. Thus, for example, when 20% of the telecommunications parastatal, Telkom, was sold to South-Western Bell and Malaysian Telecom, it was granted a five-year monopoly in the fixed-phone business on condition it provided a specified number of lines to poor rural areas and connected every school, police station, clinic and community centre in the country in that time.

Of course, as Mandela had warned the comrades when that critical enabling clause was included in the ANC's *Ready to Govern* document back in 1992, ideological fixations die hard and trigger words can detonate them, so the word "privatization" is never used in the new South Africa. What is happening is "a restructuring of state assets".

Thus GEAR marked the completion of the ANC's astonishing ideological U-Turn. The verbal camouflage notwithstanding, it also caused great acrimony in the alliance, with Cosatu and the SACP feeling their socialist concerns had been roughly cast aside. What rubbed salt in their wounds was that they felt the policy change had been foisted on them without consultation. The ANC had presented GEAR without

even a debate in its National Executive Committee. Some disgruntled alliance members accused the political organization of having betrayed the revolution.

* * *

The gap between Cosatu and the ANC began to appear soon after the unbanning. Cosatu economists joined in the Harare conference in April 1990 and its report was accepted as representing both organizations. But soon after that the business community, realising that economic transformation was going to be inevitable, began producing a series of policy documents and scenario shows of their own, all extolling the merits of the free market, to which Cosatu felt obliged to respond with its own socialist-oriented ideas.

Cosatu was also intent on maintaining its own line of thought and action, allied to but independent of the ANC. It had watched other trade union movements in Africa get absorbed into government after independence and become emasculated, and it did not want to suffer the same fate. So it wanted its own distinctive policy, and in May 1991 convened a conference to begin discussing it.

This led to another meeting a year later which yielded a policy document called *Economic Policy in Cosatu*. By happenstance this second meeting took place at the same time as the Mont Fleur scenarios, and so Cosatu missed what proved to be such a seminal experience for Manuel and other members of the ANC's economic team. It was a precursor of their widening differences. Ironically the document Cosatu produced plumped for a policy of growth through redistribution – precisely the Icarus scenario the ANC members were abandoning at that very moment. Cosatu's plan was based on expanding demand through higher wages and an inward-looking industrial policy, rather than an export-oriented one, designed to produce basic goods for the poor. In time this policy document flowed into another, the Industrial Strategy Project (ISP), then being prepared by a pro-Cosatu team called the Economic Trends Research Group. The ISP report in turn was heavily drawn on by the MERG researchers – so that in the end Cosatu was much more enamoured of the MERG report than the ANC was, and was pained when it was dumped.

So the tensions increased. Cosatu was trying to walk a tightrope, to be part of the ANC alliance but with its own identity and policy. It wanted to be part of the decision-making process, to be consulted in depth on policy matters and to have its views incorporated in the decisions. This was feasible while the alliance was still a liberation movement, but became increasingly impractical when the ANC became the government. Then the unionists began complaining that when they were consulted it was merely a token gesture and their views were ignored, while the ANC replied testily that "government must govern". The executive had to take decisions and act in the national interest.

More fundamental still was that the two groups had different vistas of responsibility which gave them different perspectives. The government's concern had to be the national interest, that of all South Africans, while Cosatu's focus was inevitably on a much narrower constituency, its own members of the working class. Not only did the government have to take a broader view on every issue, it was exposed to a much wider range of influences and experiences at home and abroad. As one senior member of the ANC put it: "Everybody in the executive, and even in Parliament, was grappling with a huge range of complex issues and they grew enormously as a result. Those in the unions were locked in their own paradigm, which is the union-management dichotomy, and were not growing at anything like the same rate."

Compounding this was the fact that the top Cosatu leaders have been repeatedly creamed off into senior jobs in the government and the ANC. The unions have in fact been a wonderful training ground for the country's new political leadership, which may well have been their most important contribution to the building of a new South Africa. But the repeated co-option of their best leaders, beginning with Cyril Ramaphosa and Jay Naidoo, has weakened them. It has also annoyed some Cosatu members as President Mbeki in particular, with machiavellian craftiness, has used ministers drawn from the unions and the Communist Party to enforce the most unpopular decisions on their former colleagues.

Cosatu faces some structural problems too. As the South African economy transforms, with the primary sector losing importance and the secondary and service sectors gaining, the power base of the work force is shifting away from Cosatu's traditional strength among mineworkers and other less-skilled people to those with higher skills levels. And many of these higher-skilled workers, in the words of one labour analyst, "are not nearly as receptive to the kind of arm-wrestling that Cosatu is used to."

Business, meanwhile, has undergone its own transformation. South Africa used to present an unhealthy picture of monopoly capitalism,

with only about a hundred white men, a brotherhood of company directors, effectively controlling nearly the whole of big business through a maze of interlinking shareholdings. At one time McGregor BFA, a business information provider, calculated that the Anglo American Corporation effectively controlled nearly half the capitalized value of the Johannesburg Stock Exchange. Now the behemoths are restructuring and unbundling. When many foreign companies disinvested under anti-apartheid pressure in the 1980s, some of the larger South African companies snapped up their operations at bargain-basement prices, turning themselves into multi-enterprise conglomerates. Now, under the different pressures of globalization, the emphasis is on core businesses. Many enterprising firms are also breaking out of the old laager of isolation, listing in London and reaching into Africa, Latin America, Asia and North America, to join the new game of playing in the global marketplace.

Business, being always eager to curry favour with governments wherever they are, has also actively helped draw blacks into the private sector, offering directorships to individuals and encouraging the development of new "black empowerment" companies. Not all have been successful but some have, and the experience has been transforming for many white businessmen who once bent over backwards to please – and thus win contracts from – the apartheid regime.

Overall there has been a massive transformation of the private sector as well as of the government and its state apparatus. Given where they came from, there has also been a surprising degree of convergence in the economic thinking of government, business and labour. There are still differences, primarily around the emphasis to be placed on the two main aims of restructuring – redressing social imbalances, or promoting international competitiveness. Business complains about inflexible labour regulations, affirmative action and an employment equity law which requires employers to report to government on the racial composition of their work force. Government counter-accuses business with charges of negativism. At times the differences become acrimonious, as when business protested aggressively in June 2002 against the Minerals and Petroleum Resources Development Bill aimed at ending the big mining houses' perpetual monopoly over the country's mineral rights. But for the most part pragmatism prevails, and there is a considerable degree of discussion and collaboration in joint bodies such as a National Economic, Development and Labour Council (Nedlac) where Cosatu, government and business are represented.

In the long term the most significant differences are between Cosatu and the government. What has aggravated the relationship is that GEAR has fallen well short of the optimistic targets the government set for it in July 1996. GEAR's begetters predicted a GDP growth rate that would reach 6% by 2000 and the creation of 810 000 jobs by 1999. Instead growth fell from 4,3% to 3,4% by 2000 and to 2,2% in 2001, while half a million jobs have been lost.

The following year saw a marked improvement with growth back to 3% despite a grim global recession and with the rand recovering 40% against the dollar. This enabled Mbeki to claim in his State of the Nation speech to Parliament on 14 February 2003 that "the tide has turned". A week later Finance Minister Trevor Manuel presented an upbeat budget, relaxing exchange controls and cutting taxes for the second year in a row, while at the same time increasing capital expenditure on infrastructure development and giving a significant boost to social services for the poor. The implicit message was, after going through a valley of austerity GEAR's macro-economic restructuring is beginning to pay off, exports are on the increase and better days lie ahead.

There is every reason to believe this is true, but the payoff in job creation is still not there to any significant extent and this is what distresses Cosatu. The government's critics in the union movement see the massive loss of jobs over the past nine years as a vindication of their belief that the ANC chose the wrong ideological route and that it not only betrayed the revolution but its own people as well by inflicting such hardship on them.

Internal debates in the alliance have become steadily more rancorous over the years and it is clear that the ideological differences are deepening. What this means is that South Africa now effectively has two parliaments – the elected Parliament in which ANC and Cosatu members sit together on the government benches facing an Opposition, which, with the exception of two members of the PAC and one of the Azanian People's Organization (AZAPO), is uniformly to the right of them; and the alliance itself where Cosatu and the SACP form a left-wing opposition to the government.[28]

The debates in the two "parliaments" are quite different. The Opposition in the elected Parliament is constantly demanding greater concessions to the interests of business and the free market to make South Africa more globally competitive, particularly by speeding up privatization and making the labour regulations more flexible; while

the opposition in the alliance is constantly demanding more state intervention to redress social imbalances, boost social welfare payments, uplift the black working class, and to end privatization which leads to retrenchments.

The intriguing fact is that this second opposition is obviously the real one. The official Opposition in Parliament, the Democratic Alliance, is predominantly white and has little growth potential beyond the white community and other minority groups. It may pick up a smattering of black supporters who have fallen out with the ANC, but it is inconceivable that an overwhelmingly black electorate is going to vote a white-dominated party into power any time soon after the end of apartheid. This means that while the Democratic Alliance can play a useful role as a watchdog on government, criticising policies and exposing corruption and maladministration, it is not a true political opposition in the sense that it is not a realistic alternative government.

The only realistic alternative government lies within the alliance, in the form of Cosatu and the SACP and some individual ANC members, such as Mandela's ex-wife Winnie, who are sympathetic to the populist line. Not only is it an overwhelmingly black opposition and therefore one with growth potential, but it also has a potent potential platform in championing the cause of the have-nots who have suffered the consequences of the government's U-Turn and would be receptive to a populist election campaign. The real opposition is to the left, not the right, of this turnaround government.

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The big question then is: Can the alliance hold? The internal conflict reached a new peak in September 2002 when Cosatu, backed by the SACP, launched a series of bitter attacks on the government's privatization policy that culminated in a two-day national strike backed by protest marches around the country. Mbeki was outraged and at a big ANC policy conference launched an angry counter-attack, accusing "ultra-left sectarian elements" of trying to "capture control of our movement and transform it into an instrument for the realization of its (socialist) objectives." Which, he insisted, had never been ANC policy; the ANC had always been a national liberation movement with no inherent mission to fight for socialism. Although Mbeki never mentioned Cosatu or the SACP by name, he sent out a thinly veiled warning to both that he was prepared to consider ending the alliance with them. "We are permanently interested in increasing the size and strength of our movement," he said. "Nevertheless I am convinced that we must also pay particular attention to the principle – better fewer, but better!"[29]

Despite these growing tensions, I do not believe the alliance has reached breaking point yet. Eventually, yes, I believe a break-up will take place. For the moment, though, Cosatu has too much to lose by breaking away, in the form of patronage and job advancement opportunities for its members and at least some insider influence on policy formation. Scores of Cosatu members hold well-paid positions in the national and provincial cabinets, the legislatures, the civil service and even in the diplomatic corps, which few would want to surrender. Nor would others who hope they are in line to climb the same ladder. Cosatu is an important recruiting ground for the government which serves as a powerful inducement to even the most disgruntled members to remain inside the tent. And even though Cosatu complains that it is not properly consulted and that its views are ignored, the government does periodically throw it a bone in the form of an amendment to labour legislation or some other such concession. Outside the tent it would get nothing.

Equally dissuasive is that Cosatu at this stage would likely suffer heavy defeat if it were to break away and oppose the ANC. It is not a political party and does not have either the image or the campaigning skills of one. And although it has a substantial membership of almost two million, the numbers are declining and Cosatu's structures do not extend beyond that. Nor does its natural constituency. The unemployed may identify with some of Cosatu's criticisms of government, but they are not enamoured of the trade unions whose members represent an economic elite and whose pressures for higher wages and other protections shrink the job market and make it harder to find low-paid work below the minimum wage. There may be a lot of potential support there, but it remains to be mobilized and that will take time, money and a lot of political skill. Until that happens, in Frederik van Zyl Slabbert's experienced political judgment Cosatu would be "eaten for breakfast" in an election.[30] And its leaders know well enough that opposition politics is not a profitable game in Africa, at least not in the early years after independence or liberation. The *uhuru* parties tend to have a long momentum of popularity.

But in the long run I believe a split is inevitable. As a new class stratification begins to overlay the old racial one, different constituencies will take shape and this will eventually result in a political

realignment to match them. It is constituencies rather than politicians that give rise to viable political parties. Cometh the constituency, cometh the party – and it is the smart political leader who spots the opportunity and takes advantage of it.

I foresee three parties emerging to serve three new constituencies – the ANC rooted in a fast-growing multiracial middle-class constituency and evolved into something like Tony Blair's New Labour or the German Social Democratic Party; a socialist workers party led by the labour movement and the intellectual leftists now in the SACP serving the working class; and another party making its pitch to the underclass, the poorly educated and the tribal traditionalists who find themselves outside the economy and whose tribal institutions and cultures are being eroded by modernism. Unlikely though it may appear now, this third party may be an alliance between a reformulated PAC, the Inkatha Freedom Party and other traditionalist elements.

But all of this will take at least another five to ten years.