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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